NATIONAL INTELLIGENCE DIGEST



CENTRAL INTELLIGENCE AGENCY

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INTRODUCTION

PURPOSE AND SCOPE

The National Intelligence Digest is intended to serve as a summary of intelligence on major world problems for the use of government officials. Users of the Digest should be aware that it is not designed to provide complete and up-to-the minute current intelligence. The country handbooks published by the Office of Current Intelligence provide this type of information in considerable detail. Moreover, the Digest does not provide a compilation of National Intelligence Estimates, but rather is a collection of generalized abstracts of such estimates. The Digest will be revised monthly to take account of major current developments and to include abstracts of the latest pertinent National Intelligence Estimates. The date at the bottom of each page indicates the cut-off date for the information contained on that page.

SOURCE

The Digest is not an IAC-coordinated publication. Where National Intelligence Estimates are abstracted, the source will be clearly indicated in a footnote. CIA assumes sole responsibility for this abstracting as well as for all other material.

CLASSIFICATION

This Digest as a whole is classified TOP SECRET and each page is so marked. Individual sections in many cases have lower classifications, which are shown under the title on the first page of the section. The lower classification may be employed if the material is separated from the Digest.

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(I. $^{\uparrow}$ ESTIMATE OF THE WORLD SITUATION THROUGH 1955*

SCOPE

This estimate is concerned with the major international trends which will affect the world situation through 1955 rather than with the specific events and conditions which will characterize that situation. The estimate must assume a continuation of present US policies and thus cannot consider the effects which a change in these policies would have on the world situation.

ESTIMATE

The Over-All Situation Through 1955

Despite the change in regime in the USSR and the shifts in Soviet foreign and domestic tactics, there has been no change in the USSR's basic hostility to all non-Soviet power. The USSR will continue its cold war against the Free World, largely through a vigorous political warfare campaign. While East-West negotiations are possible, there is little likelihood of any major Soviet concessions.

On the other hand, we believe that deliberate initiation of general war by the USSR is unlikely during this period,** and, to the extent that the USSR pursues a more cautious policy, the chance of war by miscalculation will also probably be less. However, there will be continuing danger that it may occur from a series of actions and counteractions initiated by either side, but not intended by either side to have that result. In particular it might arise from actions by one side that were regarded by the other as an imminent threat to its security. There will also be a continued danger of new or intensified East-West clashes, particularly in Indochina, and Korea, and of incidents in Germany.

In the absence of such East-West clashes, and unless the USSR abandons its ostensibly conciliatory tactics, the next two years will probably be a period of reduced Free World apprehensions of general war. So long as this period lasts it will present a new challenge to the Free World. While over the longer run the very diversity of the Free World may lend it a flexibility and potential for growth which will constitute a source of strength, over the next two years this diversity may prove a source of weakness. The totalitarian nature and centralized controls of the Soviet Bloc might give it advantages in this phase of the cold war, even though the totalitarian rigidities of the Bloc system might over the longer run

^{*} This chapter contains the complete text of NIE-99, "Estimate of the World Situation Through 1955" (23 October 1953).

^{**} The Deputy Director for Intelligence, The Joint Staff, considers that the intelligence available is insufficient to permit a judgment, of Soviet capabilities or intentions, sufficiently accurate to justify the conclusion that:

[&]quot;Deliberate initiation of general war by the USSR is unlikely during this period."

impair its stability and cohesion. Continued stresses and strains within the Soviet Bloc are likely, but the monolithic unity and forced cohesion of the Bloc will probably be much less affected by a situation of reduced apprehensions than the more divided Free World. Moreover, the build-up of Bloc strength will almost certainly continue, even if at a somewhat reduced rate, while the Free World may be inclined to relax its guard. We believe that in a situation of reduced international apprehensions and Bloc emphasis on divisive tactics, there is danger of a weakening in the unity of the Free World.

The progress being made by the USSR in the development of nuclear weapons is also a factor of prime military and psychological importance in the world situation. As this Soviet capability increases, Western superiority in numbers of nuclear weapons will be of relatively less significance so far as the psychological factor is concerned. As the USSR increases its capabilities for delivering a seriously damaging attack on the US, the US is losing the unique position it has held in the East-West struggle. The full impact of this development is not yet clear, but even now we perceive two new elements:

- a. One is the danger that the USSR may use threats of atomic bombardment against certain Free World countries in an attempt to force their compliance with its demands. There is a chance that some US allies, if they feared that the threat of US retaliation would not deter Soviet action, would be forced by the prospect of atomic devastation to adopt more neutral positions in a cold, or especially in a hot, war.
- b. In an age where initial air assault can be so destructive, the US is losing, if it has not already lost, the immense advantages of being able to conduct a deliberate and extensive post D-day mobilization with relative freedom from enemy attack.

Probable Trends in Soviet Bloc Cohesion, Strength, and Policies

Cohesion of the Bloc. Despite the possibility of a disruptive struggle for power within the new Kremlin leadership and the evidence of popular disaffection within the Satellites, we believe the Bloc will preserve its cohesion through the period of this estimate, and that the Kremlin will continue to play the dominant role in the formulation of Bloc policies. We believe that the USSR and Communist China will remain closely allied during the period of this estimate.

Bloc Capabilities. The build-up of Bloc basic industry and military capabilities will continue even though increased attention will be devoted to the correction of certain economic deficiencies in agriculture and consumer industries which recently have been specially emphasized. There are indications that the Soviet authorities intend to proceed along the lines laid out in the announced plans for these sectors of the economy. This would require an allocation of greater resources to agricultural and consumer goods production and, at least for the short run, would lead to a reduction in the rate of expansion of other sectors of the economy.

The most significant increase in Bloc military capabilities during the period of this estimate will arise from enlargement of the Bloc stockpile of nuclear weapons (and the addition of a thermonuclear component), and from an increase in the number of its jet aircraft and its submarines.

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The Bloc may by mid-1955 have available a sufficient number of heavy bombers to increase greatly its long-range air offensive capabilities. The Bloc will probably increase its air defense capabilities, and may have a limited number of all-weather jet interceptors in operational units. We do not believe that marked changes in Bloc military strength and capabilities are likely to occur in other respects; however, there will be a general improvement in training and equipment of Bloc armed forces.

Bloc political warfare capabilities, through exploitation of Western political and economic vulnerabilities, encouragement of anti-Westernism and nationalism in underdeveloped countries, and utilization of the world-wide network of Communist parties, will remain great.

Probable Bloc Policies.*** We believe that the Communist rulers remain profoundly convinced that permanent hostility exists between the Communist and the free worlds. Their basic objectives, therefore, continue to be an expansion of their own sphere of power and the eventual domination of the non-Communist world.

We believe that during the period of this estimate Bloc leaders will try to avoid courses of action which in their judgment might involve substantial risk of general war. We also believe it unlikely that the Bloc will initiate new local aggressions with identifiable Bloc forces during the period of this estimate, since the Communist leaders probably estimate that virtually any new local military aggression would now entail substantial risk of general war or political consequences adverse to Bloc interests.

It is always possible, of course, that the Kremlin will deem some act of local armed aggression sufficiently advantageous to make the risk worth while. Moreover, despite its reluctance to run substantial risks of general war, the Kremlin might through miscalculation adopt some course of action involving such a risk. We also believe that the Kremlin would not be deterred by the risk of general war from taking counteraction against a Western action which it considered to present an imminent threat to Bloc security.

During the period of this estimate the Communist leaders will conduct a vigorous political warfare campaign to undermine the Western power position. At present the Kremlin seems to be trying to give the impression that it has adopted a more conciliatory policy than that followed in Stalin's later years. The Kremlin may hope by such tactics to relax the vigilance of some Western states, to encourage dissension between the US and its allies, and to delay the progress of Western rearmament. We cannot predict how long such comparatively conciliatory tactics will continue; we believe that harsh courses of action similar to those pursued by the Kremlin in the past will reappear whenever the Kremlin deems them advantageous.

We believe that Bloc leaders during the period of this estimate will probably be prepared to reach an accommodation on some minor questions, and may make plausible but unacceptable proposals on major matters. However, they will almost certainly be unwilling to settle any

^{***} The material in this section is taken from NIE-95, "Probable Soviet Bloc Courses of Action Through Mid-1955," 25 September 1953.

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East-West differences at the cost of major concessions. We believe, moreover, that the Bloc leaders will be extremely cautious in pursuing conciliatory tactics, and may revert from time to time to demonstrations of toughness, especially when they consider that their vital interests are involved, or that their tactics are being construed abroad as a sign of weakness. Offers to negotiate may be accompanied by reminders that the USSR now has improved capabilities in the nuclear weapons field, and as these capabilities further increase, the Kremlin may become bolder in its dealings with the West.

There are recent indications that the Bloc intends to increase its trade with non-Communist states. The Bloc's volume of trade with the Free World will probably increase somewhat during the period of this estimate, but this trade will continue to be very small in proportion to intra-Bloc trade. New trade agreements will probably be intended not only to obtain desired imports but also to weaken the economic ties of non-Communist states with the US, and to make strategic trade controls a bone of contention between these states and the US. While the Bloc will not be able to bring about a major shift in present trade patterns, the Communists probably estimate that political dividends can be earned from even small increases in their current volumes of trade with individual non-Communist states.

Probable Developments in the Free World

During the next two years the Free World will have difficulty in maintaining its strength in the face of Soviet divisive tactics and probable reduced apprehensions of East-West conflict. In contrast to the Kremlin's ability to control or influence the close-knit Soviet Bloc, the US, as leader of the anti-Soviet powers, faces the complex problems of dealing with the loose anti-Soviet coalition and the agglomeration of other nations of varying neutral tendencies which together make up the Free World. To many of this latter group, particularly the Middle and Far Eastern countries, the East-West struggle seems less important than the solution of their internal problems and the assertion of their independence of the chief Western Powers.

Differing views also exist between the US and its allies over the imminence of the Communist threat. The very fact of Communist aggression in Korea increased fears of general war and was a prime factor in stimulating Western rearmament. Now that many Free World countries believe that the threat of war has been reduced by a Korean armistice and by an ostensibly more conciliatory Soviet policy, the US will have greater difficulty holding together an anti-Soviet coalition and in securing increased Free World armed strength. The levelling off of the US's own rearmament effort and the decline in many of its foreign aid programs also lessens the sense of urgency abroad.

The apparent decline of Free World confidence in US leadership is another problem facing the US. Influential groups in many Free World countries, including several US allies, doubt the stability, moderation, and maturity of US policy. On the one hand, there is fear the US will shift to a "go-it-alone" policy or even retreat to isolationism, on the other that the US will involve the Free World in war. These doubts and fears

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offer a fertile field for Soviet divisive tactics, and the new Soviet regime may be more successful than Stalin in exploiting them.

In a situation in which many Free World countries believe that the threat of war has been reduced, economic problems will also assume greater prominence and will test the strength and cohesion of the Free World. This reduced apprehension will weaken what has been a powerful incentive to cooperation and sacrifice. Moreover, some readjustment to a reduced rate of rearmament and declining US aid will be necessary. Much will depend on US economic policies and the US economic situation. Not only would US economic setbacks have a serious impact on the Free World, but US trade policy will directly affect the economic health of Free World countries, and US aid will remain in many cases an important element in their military build-up, economic stability and development, and political orientation. The problem of East-West trade is also likely to become more troublesome.

Therefore, we believe that in the absence of renewed Soviet provocation, there may develop further serious rifts between the Free World nations which will weaken the Western position in the cold war. Such rifts may develop in any case as a result of economic developments or local nationalist pressures but reduced apprehensions of war, combined with skillful Soviet divisive efforts, would make them even more serious. The most troublesome differences may arise over policies to be pursued in the Far East. It is possible, therefore, that the next few years might see an increasing isolation of the US, not by its own desire but because of increasing policy differences between it and other countries of the Free World.

Even assuming the continuation of the Soviet courses of action projected above, there remains a serious danger of new or widening East-West clashes in such critical areas as Indochina, Korea, and Germany, which would again increase Free World apprehensions. Whether, if such clashes took place, the Free World would then rally to the support of the US and of expanded rearmament programs, as after the Korean aggression, would probably depend at least in part on the circumstances under which the clashes developed.

Probable Developments within the NATO Coalition

Although we foresee no developments which will undermine the basic solidarity of the NATO alliance, we believe that, in view of reduced European apprehensions of East-West conflict, rifts may develop between the NATO partners, particularly between the European NATO countries and the US. The USSR will attempt to undermine popular support for the NATO alliance and for rearmament, in particular the program to rearm West Germany. These efforts, together with increased Soviet nuclear capabilities, continued intra-European differences, and European disagreements with the US over cold war policies, may lead to more nationalist and neutralist attitudes in Western Europe.

So long as apprehensions remain reduced there also will almost certainly be a further loss of momentum in the NATO build-up. The general feeling that the immediate Soviet threat has receded has already led most NATO countries to reduce their military outlays. While a further

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slow increase in NATO strength over the next two years is probable, only in event of renewed Soviet aggressiveness will it be as rapid as in 1950–1953. On the other hand this might allow many NATO countries to concentrate on domestic needs and to devote more resources to meeting their own social and economic problems. Such a trend might strengthen countries such as the UK, which remain highly vulnerable to adverse international economic developments.

Significant increases in European NATO military strength over the coming period will probably depend upon the extent to which Spain, Yugoslavia, and above all West Germany can be directly or indirectly associated with NATO. The Trieste issue will remain an irritant in Italo-Yugoslav relations which will render the association of Yugoslavia with NATO difficult. Until a settlement of the Trieste issue is generally accepted, the usefulness to NATO of the Greek-Turkish-Yugoslav entente will be impaired.

But above all, the prospects for greater European NATO strength and cohesion will revolve increasingly around the interlocking problems of Germany's future and the attitude of France. As a result of Soviet failure to come forward with any acceptable reunification scheme and of Adenauer's overwhelming victory, the chances for integrating West Germany with the Western Powers and for initiating its rearmament have increased. The Kremlin may seek to avert or postpone these developments by renewed talk of German reunification, but it is unlikely to offer any terms which would jeopardize its control over East Germany. Adenauer's position is so strong and German disillusionment with Soviet unification offers is so great that any Soviet offers not involving abandonment of Soviet control over East Germany would be unlikely to have much impact on German opinion. The importance attached by the Soviet rulers to West German rearmament is such, however, that they might react to it by measures which would enhance the risk of an East-West clash in this area. A likely pressure point would be West Berlin.

Though many in France are aware of the need for strong government,			
here is no evidence that this awareness will lead to a stronger French			
political system.			
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Probable Trends in the Far East

In the last two years the most active theater in the East-West struggle has been in the Far East. There the Western Powers have kept the Communists from overrunning South Korea and Indochina while attempting to build up anti-Communist strength through US support of the non-Communist countries in this area. We believe it unlikely that the Communists will undertake new local aggression in the Far East with identifiable Bloc forces. The emphasis in Communist China over the next two years will probably be on building up industrial and military strength. However, we believe that the Communists would take counteraction against Western actions which they felt presented an imminent threat to their security, even at the risk of widening hostilities in the Far East.

It will be difficult to increase the strength, cohesion, and anti-Communist orientation of the non-Communist states of the Far East. The cessation of hostilities in Korea, together with Communist efforts to promote rifts among the anti-Communist powers, will add to this difficulty. During the next two years there is unlikely to be any significant improvement in the Western position in this area; moreover, there are possibilities of serious deterioration, particularly in Indochina, Indonesia, and Korea.

Korea. A Korean political conference, if it takes place, is unlikely to result in any agreement which would alter the status quo. The Communists are unlikely to break the armistice by renewing hostilities, but they almost certainly will not agree to Korean reunification on terms which would endanger their control of North Korea. On the other hand, if President Rhee remains convinced that the US could neither prevent an ROK armed attack against the Communists nor disassociate itself from military support of such action, once undertaken, we believe that he will probably at some time seek to disrupt the armistice by such an attack. If hostilities are renewed, the Communists will probably take, at a minimum, the military measures they consider necessary to maintain their position in Korea. Unless the ROK renews hostilities, we believe that there will be a continued armed truce in this area, with both the US and USSR engaged in reconstruction and in strengthening their respective Korean partners.

Taiwan. Any major change in the status of Taiwan is unlikely. The Communists probably will not attempt invasion so long as the US defends Taiwan; and unless the US decides to support Chiang's forces directly, he in turn will be unable to undertake more than minor harassment of the mainland.

Indochina. We believe that there will almost certainly be important developments in the Indochina situation during the period of this estimate. The steady deterioration of France's will to continue the struggle has been at least temporarily checked by French resumption of the initiative under the Laniel-Navarre plan. We do not believe, however, that the French will achieve a complete military victory. The French objective is to reduce the drain of the Indochina war on France, while main-

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taining a position for France in the Far East. The outcome will depend on whether, by a combination of military victories and political concessions, the French can strengthen the Associated States to the point where these states will be able to maintain themselves against Communist pressures with greatly reduced French support. The French would hope in this way to create a situation which could serve as a basis for successful negotiations with the Communists. The Laniel-Navarre plan may be the last French effort in Indochina. Should it fail to achieve its objectives we believe that, unless the US proves willing to contribute forces, the French will in time seek to negotiate directly with the Communists for the best possible terms.

For their part, the Chinese Communists will almost certainly continue their present type of support for Viet Minh. They are unlikely to intervene with organized units, at least in the absence of Western moves which in their opinion threatened the security of Communist China. At the same time, the Communists will probably talk of peace negotiations as part of their propaganda campaign and might raise the Indochina issue in high level political conferences. They are unlikely, however, to agree to any political settlement which they believe would lessen their chances of eventually gaining control of Indochina.

Other Countries of Southeast Asia. Problems facing the other Southeast Asian countries are those of attaining political stability, coping with local insurrections, and meeting their own serious economic problems. The outlook in the Philippines, and in the absence of serious deterioration in the Indochina situation, in Burma, Thailand, and Malaya, is for some improvement in stability, though these countries will by no means resolve their numerous internal problems. In Indonesia, however, the leftist character of the present government offers increased opportunities for Communist penetration,

Japan. Accumulating economic difficulties and the reluctance or inability of the Japanese Government to adopt energetic economic and rearmament policies are prolonging Japanese dependence on the US and delaying Japan's development as a counterweight to Communist power in the Far East. At the same time there is growing anti-American sentiment in Japan. Unless Japan can find the necessary foreign markets and take the necessary internal economic measures, the development of a sound defense structure as well as a sound economy will be endangered, the present dominance of the moderate conservatives will be weakened, and the whole pattern of US-Japanese cooperation will be threatened. We foresee no basic change in Japan's pro-Western orientation, but economic difficulties and growing nationalism will create increased US-Japanese frictions and postpone the development of a strong anti-Communist Japan.

Prospective Trends in the Middle East, Africa, and South Asia

In the underdeveloped areas of Asia and Africa the Western position has deteriorated since World War II. Local nationalism has proved a force against the West and the deep-seated revolutionary forces at work in these areas have created political instability. It is difficult to overcome the anti-Western sentiments of the newly independent Asian and African countries and convince them that Communist policies threaten

their independence. Except in Iran, however, the internal Communist threat is small and is unlikely to grow greatly in the next two years.

The Middle East and North Africa. Conflicts between native nationalists and the "colonial" powers will continue, but we believe that in certain areas there are prospects for improvement in the West's position. The fall of Mossadegh in Iran has at least temporarily increased the opportunities for strengthening Iran's internal stability and settling the Anglo-Iranian oil dispute. Chances for settlement of the Anglo-Egyptian base controversy have improved, and if a settlement is reached it will probably have a favorable effect on both the stability of the Egyptian regime and on the Western position throughout the Arab World. On the other hand, an Anglo-Egyptian settlement may set the pattern for similar demands from Iraq. The Arab-Israeli dispute will continue, but a renewal of large-scale hostilities remains unlikely in view of the near military equilibrium of the two parties, and the restraining influence of the US, the UK, and France. The more favorable policy that the US has adopted toward the Arab States may contribute to better relations with them. However, there remain possibilities of markedly adverse developments in this volatile area. Although the deposition of the Sultan of Morocco has temporarily bolstered French control, it is likely to drive the nationalists to more extreme positions since France seems unlikely to implement very far-reaching reforms.

South Asia. India and Pakistan will probably remain preoccupied with their own serious economic and social problems; they will also remain concerned with their dispute over Kashmir. India is unlikely to abandon its neutralist position in the cold war, but Pakistan, motivated largely by its desire to improve its position vis-a-vis India, will continue its efforts to secure some pact with the Western Powers, in return for extensive US aid. Some further improvement in the relations of this area with the West may occur over the next two years, but they will remain acutely sensitive both to anti-colonial disputes in other areas and to any indications that the West is pursuing aggressive cold war policies, particularly against Communist China.

Probable Trends in Latin America

There will probably be a continued trend in Latin America toward extremely nationalistic regimes based on demagogic appeals to sectors of new political importance — organized labor, white-collar workers, and the lower middle class. This trend will be most evident in countries where rapid social and economic change is taking place. This change results from forced industrialization at the expense of agriculture, which is generally accompanied by severe inflation. Right or left extremism which poses potential threats to US security interests will probably be strongest in Argentina, Bolivia, Chile, Guatemala, and possibly Brazil. In these countries there will continue to be substantial Communist and demagogic nationalist influences, which will attempt to channel the resentment of the dislocated groups against the US. In Guatemala Communist influence over the government, already strong, may increase. Communist penetration of British Guiana has posed a new problem in the Caribbean area.

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Most Latin American countries will probably continue to cooperate with the US in the UN on basic East-West issues, although they will tend increasingly to pursue an independent course on issues affecting underdeveloped countries. Latin America will be increasingly concerned about US trade and especially tariff policies. Regardless of the degree of Latin American cooperation with the US, there will probably be an increasing tendency to expand commercial and possibly diplomatic relations with the Soviet Bloc.

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GENERAL

B. PROBABLE EFFECTS OF INCREASING NUCLEAR CAPABILITIES UPON THE POLICIES OF US ALLIES**
(Secret)

ASSUMPTIONS

Nuclear weapons will not have been used in war since 1945.

No international agreement will have been made restricting or outlawing the use of nuclear weapons in war.

CONCLUSIONS

A great and recognized growth in nuclear capabilities will obviously intensify the anxiety of peoples and governments to avoid war. No government will willingly run risks of war unless interests are at stake which it considers vital, and the threat of nuclear weapons will almost certainly tend to narrow the range of interests that any government will consider vital.

Under such circumstances, the difficulties presently felt in maintaining an effective Western coalition under US leadership may be increased, but we do not believe that the alliance will necessarily show significant weakness, at least as long as there does not seem to be a greatly increased likelihood of general war. The US allies will probably seek to obtain greater influence over US policy in order to ensure a cautious and non-provocative attitude toward the Communist states.

The alliance could receive a severe test, however, in connection with local aggression committed or supported by the Soviet Bloc. Fear already exists that strong reaction to such aggression might lead to general war. Fears of general war will be intensified when both great power blocs are believed to possess large nuclear capabilities. US allies would therefore be even more insistent than at present that every effort be made to limit the scope and area of local conflicts and to deal with local aggression without resorting to acts which might expand the conflict into general war. US allies generally would also be more unwilling than at present to participate in repelling local Communist aggression.

^{*} This section includes the Conclusions of NIE 100-54, "Probable Effects of Increasing Nuclear Capabilities upon the Policies of US Allies", 26 April 1954.

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In the event of international crisis involving grave danger of general war, we believe that the allies would almost certainly support the US as long as they believed that firm maintenance of the alliance would probably avert war.

We cannot estimate the probable courses of action of US allies if an international crisis should develop to the point where general war seemed to them virtually certain and no longer to be averted by firm maintenance of the alliance. There is inadequate evidence or precedent on which to calculate the reaction of governments and peoples who consider themselves to be facing imminent threat of attack with nuclear weapons. Among the factors influencing the courses of action of each nation, we believe that the following would be of most importance: (a) the estimate that the government and people would make of their chances of survival in the event of participation in general war; (b) the alternatives which would appear available at the time; (c) the political and social stability of the state, and the morale of its population; (d) the importance, to the state, of the issues at stake in the crisis; (e) the strength and cohesion of the alliance at the beginning of the crisis, and the degree of integration of its armed forces; and (f) the judgment which people and government had made of the wisdom and skill with which US policy had been conducted.

We believe that most allied governments, if confronted with certain national destruction as the sole alternative to an accommodation with the USSR, would choose the latter. We believe it unlikely, though possible, that the major allies of the US would become convinced that the alternatives facing them were so limited and so clear-cut as the two described.

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C. PROBABLE DEVELOPMENT OF THE SOVIET BLOC AND WESTERN POWER POSITIONS OVER THE NEXT FIFTEEN YEARS*

We believe it essential to state at the outset that there is no unequivocal answer to the question "is time on our side." Even assuming a continuation of the present general trend of policies of both the Bloc and the Western Powers" (itself an assumption of doubtful validity), there are so many accidental or unpredictable factors which will materially affect the world situation as to prevent any firm estimate of the relative Soviet Bloc and Western power positions fifteen years from now. However, it is possible to appraise in general terms our likely power position vis-a-vis the Bloc if present trends continue and if various major alternative developments do or do not come to pass.

PROBABLE ECONOMIC GROWTH OF SOVIET BLOC AND THE WEST

The Soviet Bloc. At present the over-all economic strength of the Soviet Bloc is far less than that of the Western Powers; in terms of gross national product (GNP), the 1952 output of the entire Bloc is estimated to have been about one-third that of the Western states.*** However, the economic strength of the Soviet Bloc should increase greatly over the next 10-15 years. Soviet GNP will probably almost double within this period, while Bloc GNP as a whole will increase around 75 percent.

Bloc economic capabilities to wage war are likely to increase substantially since the Bloc will probably continue to place great emphasis on military production.

^{*} This section is a summary of SE-46, "Probable Long Term Development of the Soviet Bloc and Western Power Positions", 8 July 1953.

^{**} The Western Powers are taken to include the US and its allies.

^{****} For the purpose of these economic projections, the Western Powers include the US, the European NATO countries, West Germany, Canada, Australia, and Japan.

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The West. It is more difficult to estimate the probable economic growth of the Western Powers. The Western economies are more vulnerable to economic fluctuations and trends in international trade than are those of the Bloc. However, assuming a continuation of present trends and no serious depressions, we estimate the probable growth in US GNP at about 56 percent over the next fifteen years, and at almost 50 percent for the Western Powers as a whole.

While Bloc GNP will probably increase at a higher rate than that of the Western Powers, the GNP of the West is already so much greater than that of the Bloc that the absolute gap between the two will widen despite the lower rate of Western growth. Thus the West will remain for the indefinite future greatly superior to the Soviet Bloc in total economic strength.

PROBABLE SCIENTIFIC CAPABILITIES OF THE WEST AND THE SOVIET BLOC

The over-all scientific assets of the West are now far greater than those of the Soviet Bloc, and almost certainly will remain greater over the next fifteen years, despite great efforts by the USSR to reduce this disparity.

It is impossible to estimate whether the power relationships between the Soviet Bloc and the West will be changed during the period of this estimate by any major technological breakthrough by either side, such, for example, as the initial production of the atomic bomb by the US in 1945.

PROBABLE TRENDS IN THE MILITARY CAPABILITIES OF THE WEST AND THE SOVIET BLOC

We believe that throughout the next fifteen years the West will maintain a substantial absolute advantage in capabilities for atomic warfare, but that the Bloc will gradually reduce this advantage. Within the period of this estimate both US and USSR will produce a sufficient stockpile of atomic and possibly thermonuclear weapons to cripple the other side, if delivered on targets. However, unless it attained complete strategic surprise or achieved an unforeseen technological breakthrough, we believe that neither side would be able to prevent powerful retaliation in kind. It is likely that the West will, during the period of this estimate, remain superior to the Soviet Bloc in capabilities for tactical use of atomic weapons.

The development of Bloc and Western power positions during the next fifteen years will be significantly affected by their relative

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conventional military capabilities. Bloc military forces are being continuously modernized and strengthened. The ability of the West to counterbalance this by developing local military capabilities, particularly in key areas such as West Germany and Japan, will depend on Western and other policy decisions.

PROBABLE TRENDS IN THE POLITICAL AND SOCIAL STRENGTH AND COHESION OF THE SOVIET BLOC AND THE WEST

The Soviet Bloc. Political and social trends will have an important, and perhaps controlling effect on the relative power positions of the Bloc and the West and are most difficult to estimate over so long a period as the next fifteen years. During this period a struggle for control within the Kremlin might cause a retraction and decay of Soviet power. However, we believe it unsafe to assume that over the next 10-15 years the Soviet regime will lose its stability or the Bloc its cohesion.

Trends in the Political and Social Strength and Cohesion of the West. Because of the greater diversity of the looser Western coalition, we find it even more difficult to project probable trends in Western strength and cohesion. However, at no time in the foreseeable future will the Western Powers be likely to attain or to desire to attain centralized control to mobilize their resources. In general, they will probably continue to be more subject to internal conflicts, economic fluctuations, and divisive influences than the Bloc.

As the only single aggregation of resources outside the US itself comparable to the Soviet Bloc, Western Europe plays a major role in the world power balance. Its continued weaknesses constitute a major vulnerability of the Western Powers, while Western Europe's acquisition by the Bloc would be a tremendous increment to Soviet power. The reappearance of a strong and viable Western Europe, including Germany, would alter the present power relationship between the Soviet Bloc and the West to the advantage of the latter.

We believe that a primary concern of the Kremlin over the coming period will be to frustrate the development of a viable and defensible Western Europe; in so doing the Kremlin will almost certainly concentrate on the German problem. If a shift in Soviet policy on Germany, for example, led the Germans to accept a united, armed, and neutral Germany, it would introduce a new factor of great significance into the world power balance. Such a development, if accepted by our NATO allies, would not necessarily weaken the Western position. A rearmed and neutral Germany would act as a buffer state, and if the Germans were subsequently to abandon neutrality, we believe that they would be more likely to align themselves with the West than with the Bloc.

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The emergence of a rearmed, anti-Communist Japan would be a major asset in restoring the strategic balance in the Far East. However, the degree of future Japanese cooperation will depend largely on the extent to which Japan's political, economic, and military demands are met.

The Strength and Alignment of "Gray" Areas

A major difficulty facing the West is represented by the extreme political and social instability of the underdeveloped areas of the Middle and Far East and Africa. The anti-Western overtones of this political and social revolution create additional difficulties for the West. The danger to the Western position is acute in some areas of Southeast Asia and the Middle East. Their loss would be a serious blow to the West.

However, Western control or influence is still paramount in these areas. Over the next 10-15 years the US and its allies still have the opportunity to undertake actions which might arrest this trend and maintain that influence.

Possible Effects of a Kremlin Shift to Soft Tactics

We believe that a prolonged Kremlin shift to more moderate tactics would also present a real challenge to further growth of the Western Alliance. Should the Soviet threat appear to diminish, the likelihood of divisions among the Western Powers would markedly increase. It might lead, over the longer run, to some of our allies adopting more neutral positions, or even to the creation of a European "Third Force."

A prolonged relaxation of tensions might also have an adverse effect on the cohesion and vitality of the world Communist apparatus and hence on the Soviet power position. Soviet leaders are under some compulsion to pursue an aggressive policy in order to preserve the Communist ideology as a vital force. Any pronounced subduing of the irreconcilable hostility motif of Communist propaganda might serve to soften the rank-and-file of foreign Communist parties.

IS TIME ON OUR SIDE?

We believe that the Soviet Bloc under present policies and programs will over the next 10-15 years decrease the proportion by which its economic and technological capabilities are inferior to

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those of the West and will acquire sufficient atomic capabilities to cripple the US. Therefore, although the West will probably retain a sizable absolute margin of superiority, we believe that in these respects time must be said to be on the Soviet side.

In other respects, time may be on the side of the West. The West's military capabilities will increase during the next fifteen years if conventional rearmament programs and tactical applications of unconventional weapons enhance its present defensive capabilities in overseas areas. The extent to which these developments are likely to occur depends on Western and other policy decisions.

Trends can be identified within both the West and the Bloc which might undermine each side's political stability and cohesion. We cannot predict, however, that these trends will have such effects and certainly we cannot say that they would do so within the period of this estimate.

Even under the assumption of continuation of the present general trend of policies in both the Bloc and the Western Powers, there are so many accidental or unpredictable factors which could alter present trends, that we are unable to conclude that time is on the side of either the Soviet Bloc or the West. Though a few of the components of power can be projected with fair confidence, the relative over-all development of the power positions of the West and Soviet Bloc cannot be predicted.

SOVIET BLOC

A. SOVIET CAPABILITIES AND PROBABLE COURSES OF ACTION THROUGH MID-1959*

(See charts following this section)

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BASIC COMMUNIST OBJECTIVES AND BELIEFS

The Communist leaders now in power in the USSR, or any that are likely to succeed them, almost certainly will continue to consider their basic objective to be the consolidation and expansion of their own power, internally and externally. In pursuing this policy most Soviet leaders probably envisage ultimately: (a) the elimination of every world power center capable of competing with the USSR; (b) the spread of Communism to all parts of the world; and (c) Soviet domination over all other Communist regimes.

Soviet leaders probably are also committed to the following propositions concerning the expansion of the power of the USSR:

- a. The struggle between the Communist and the non-Communist world is irreconcilable;
- b. This struggle may go on for a long time, with periods of strategic retreat possibly intervening before the final Communist triumph;
- c. The struggle will not necessarily involve general war, though general war is always a possibility;
- d. During the period of "coexistence of the two camps" of Communism and capitalism, the Communists must steadily build up the economic and military strength of the USSR, its Satellites, and Communist China; and
- e. At the same time, the Communists must constantly try to divide and weaken the non-Communist world.

SOVIET POLITICAL STRUCTURE AND DOMESTIC DEVELOPMENTS

Events since Stalin's death do not indicate any essential changes in the institutional bases of Soviet power. The system of party

^{*} This section is based on NIE 11-4-54, "Soviet Capabilities and Probable Courses of Action Through Mid-1959," 14 September 1954. A new estimate, NIE 11-3-55, "Soviet Capabilities and Probable Courses of Action Through 1960," will be published in May.

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controls over the police, armed forces, and the bureaucracy remains intact. The Beria affair, during which the influence and status of the MVD were reduced, confirmed the effectiveness of party controls within this important instrument of power. Despite the increased prestige granted to certain military career officers since Stalin's death, there is no evidence of any relaxation of party controls over the armed forces.

Stability of the Regime

We believe that the present Soviet regime is firmly in power and that it is unlikely to be dislodged either by a grouping of forces outside the top leadership or as the result of a struggle within it. Significant changes may take place in the composition of the ruling group or in the relative power positions of its members; one man may even succeed in gaining absolute power. We believe, however, that the new Soviet regime will be able to resolve such conflicts within the confines of the ruling group and the higher echelons of the Communist Party. Consequently, we believe that whatever conflicts for power or differences respecting policy may develop within the ruling group, they are unlikely to affect significantly the stability of the regime or its authority within the country, or to prevent it from making policy decisions and carrying them out. These policies and their implementation will continue to reflect the fundamental agreement which evidently obtains among the leaders concerning the basic objectives of the Communist regime.

Domestic Policies

Although there has been no weakening in the authority of the Soviet regime, there has been an apparent effort to moderate some of the more vigorous aspects of the system devised by Stalin. Since the death of Stalin the regime has promised the people an improvement in their standard of living and increased personal security for average law-abiding citizens. The regime has backed these promises with a variety of measures designed to impress upon the population at large the seriousness of its intentions.

We believe that the Soviet regime's present efforts to moderate certain aspects of the dictatorship and to raise living standards sprang from a considered revision of the extremes of Stalin's manner of rule and were not merely the temporary concessions of a new regime. We believe that the Soviet leaders recognize that a reversal of this program, except in the event of an external threat of actual war, would result in serious public discontent which would tend to retard the growth of Soviet economic strength. Consequently, these measures will almost certainly be continued for the next two or three years,

and possibly throughout the period of this estimate, if the pressure of external or internal circumstances does not require their reversal. The result may well be an improvement of morale, especially among the more privileged elements of the population. However, if the concessions made to the peasant population do not achieve sufficient increases in agricultural production, or if they result in renewed resistance to the system of collective farming, the regime will probably resort again to more repressive measures against the peasantry. In this event, the regime might find itself faced with serious problems of low public morals and low productivity.

SOVIET-SATELLITE RELATIONS

The appearance of new leadership in Moscow has had no apparent effect on the character of the relations between the USSR and its Satellite states in Eastern Europe. We believe that Soviet authority over the Satellite regimes will remain intact during the period of this estimate. Widespread political discontent and serious difficulties in building up the Satellite economies will continue. However, during the next five years the Satellite contribution to Soviet power will gradually increase. Soviet control will continue to depend primarily on the presence or proximity of Soviet armed forces, and in the absence of general war popular dissatisfaction almost certainly will not develop beyond the stage of passive resistance and occasional localized outbreaks of violence.

SINO-SOVIET RELATIONS

The relations of the USSR with Communist China are markedly different from those prevailing between the USSR and any other Communist country. Communist China is more a Soviet ally than a Satellite. It possesses some capability for independent action, possibly even for action which the USSR might disapprove but which it would find difficult to repudiate. However, the main outlines of Communist policy in Asia are probably jointly determined by Moscow and Peiping. While the Soviet voice probably will remain preponderant, Communist China appears to be increasing its stature within the Sino-Soviet partnership. Soviet propaganda and diplomacy have recently given great emphasis to China's claim to an acknowledged position in international affairs, and the USSR has given evidence of a willingness to have Communist China assume greater responsibilities in furthering Communist interests in Asia. In particular Communist China seems to have an increasingly important role in the execution of Communist policy in North Korea and Indochina.

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The national interests of the USSR and Communist China are in some cases conflicting, and constitute potential sources of friction between the two powers. We believe, however, that throughout the period of this estimate the cohesive forces in the Sino-Soviet relationship will be far greater than the divisive forces. The USSR and Communist China share a common ideology. Both of them regard the US as the chief obstacle to the achievement of their objectives, and consider that their interests are threatened by US policy and power. Moreover, each partner profits at the present time from its alliance with the other. Communist China receives essential Soviet political, military, and economic support. Soviet leaders recognize in China a valuable ally, which provides the USSR not only military strength and defense in depth in the Far East, but also a base for further advancing Communist aims in Asia.

SOVIET ECONOMIC POLICY

The present regime in the USSR has not fundamentally changed the traditional policy of placing primary emphasis on the rapid development of heavy industry and war potential. The new regime has, however, devoted a great deal of its attention and energies to a revision of current economic plans aimed at speeding up the production of agricultural commodities, especially foodstuffs, and manufactured consumer goods. Soviet leaders have stated that this goal is to be achieved without decreasing the tempo of heavy industrial development, but they apparently intend, at least for the next two years, to limit defense outlays to approximately the high level reached in 1952 and maintained in 1953. This modification of Soviet economic programs is designed to overcome deficiencies in certain sectors of the economy, particularly agriculture.

We believe that Soviet economic policy will continue, at least through 1955, to place primary emphasis on the further growth of heavy industry, while maintaining defense outlays at approximately a constant level, and giving increased attention and resources to agriculture and consumer industries. Since advances in consumption are likely to fall far short of expectations, the chances are good that the regime will feel it necessary to continue the pattern of resource allocations along present lines through 1959. However, if at any time the Kremlin estimates that international tension is rising dangerously, then it will almost certainly increase defense allocations.

SOVIET ECONOMIC GROWTH

The rate of growth of the Soviet economy has declined in the past five years from the very high rate of the immediate postwar period.

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We estimate that during the next two years Soviet gross national product (GNP) will increase by about six or seven percent, and in 1956-1959 by about five or six percent, per year. If US GNP should increase during the period of this estimate at its long-range annual average of three percent, Soviet GNP would at the end of the period be about two-fifths of US, as compared with about one-third in 1953.

The pattern of resource allocation in the Soviet economy in 1953 showed about 14 percent devoted to defense, 28 percent to investment, and 56 percent to consumption. Current economic programs indicate that for at least the next two years the amount of expenditure on defense, instead of continuing the rapid increase that prevailed in 1950-1952 will remain about the same, while expenditure on investment and consumption will increase. We believe the chances are better than even that the Kremlin will continue its policies along these lines throughout the period of this estimate. The chief emphasis will almost certainly continue to be on further development of heavy industry.

The Soviet leaders probably recognize that their economy is unable to support the additional heavy investment outlays in industry and the increased requirements of the agricultural and consumer goods program, while simultaneously maintaining such a rapid rate of increase in the production of conventional military goods as prevailed in the Korean War period. Moreover, maintenance of a constant level of total military expenditure would not imply any slackening in the Soviet program in the field of unconventional weapons. It is possible, despite the absence of direct evidence, that the USSR will maintain conventional military production at somewhat lower levels for at least the next few years, but will give increased emphasis to the development of unconventional weapons and new weapons systems.

The chief weakness of the Soviet economy as a whole has been in agricultural production, which has remained since 1950 at approximately the prewar level, though the population is now about 10 percent greater than in 1940. Soviet leaders appear to have recognized that continuation of the serious lag in agriculture would ultimately make it difficult to meet the food requirements of the growing urban population, the raw material requirements of the expanding industrial economy, and the export requirements of Soviet foreign trade, in which agriculture plays a major role. To remedy the situation the regime has embarked on a vigorous program, with the aim of achieving by 1956 a 50 percent increase in agricultural production over 1950. We believe that this goal will not be met, and that even by 1959 agricultural production will be no more than 15 to 20 percent higher than in 1950. Even this increase, however, would be sufficient to achieve a moderate increase in the per capita availability of foodstuffs and textiles.

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SCIENTIFIC AND TECHNICAL DEVELOPMENTS

Soviet scientific and technological capabilities are sufficiently well developed to provide effective support to industrial and military research and development. At present, the scientific assets of the USSR (the number and quality of trained personnel, facilities, equipment, and financial support) are smaller than those of the US, and the assets of the Soviet Bloc are far smaller than those of the West. However, with respect to scientists of the very top rank, whose numbers are few in any country, the USSR probably has in many fields men who are as able as their counterparts in Western countries. The USSR provides the bulk of Bloc scientific assets, but East Germany and Czechoslovakia, and to a lesser extent Poland and Hungary, contribute a substantial increment. Communist China is unlikely to add significantly to Bloc scientific assets prior to 1960.

MILITARY STRENGTH AND WEAPONS DEVELOPMENT

We believe that, generally speaking, the size of Soviet armed forces-in-being will remain approximately constant during the period of this estimate. However, the over-all effectiveness of these forces will increase, mainly because of the following factors:

- a. A great increase in numbers of nuclear weapons, and in the range of yields derived from these weapons;
- b. An increase in the number of all-weather fighters and jet medium bombers, and the introduction of jet heavy bombers in 1957;
- c. A great increase in the number of long-range submarines; and
- d. An increase in combat effectiveness of Soviet ground forces, primarily due to improved weapons, equipment and organization, and to changes in doctrine and tactics designed to increase their capabilities for nuclear warfare.

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Jet Bombers

In the past several months there have been conclusive indications that a jet medium bember equipment program has been initiated in Soviet Long-Range Aviation. During the 1954 Soviet May Day fly-by and the rehearsals preceding it, 9-11 twin jet medium bombers, designated by allied intelligence as Type 39, participated. Subsequent intelligence has associated this type with a known Soviet Long-Range Aviation unit. We estimate that as of 1 July 1954 at least two regiments of Soviet Long-Range Aviation with a T/E strength of 60 aircraft were in process of equipment with Type 39 jet medium bombers. Total actual strength of these units is estimated at approximately 20 aircraft. Series production of the Type 39 is estimated to have begun in mid-1953, and total production as of 1 July 1954 is estimated at about 40 aircraft. It is estimated that Soviet Long-Range Aviation will contain an actual strength of 650 jet medium bombers by mid-1957, and 1,050 by mid-1959.

The Type 37, which was initially observed on 30 July 1953 and later observed in flight on seven different occasions in connection with the 1954 May Day celebration, is a swept wing, four-engine, jet heavy bomber with an estimated gross weight of 365,000 pounds. The aircraft, considered presently to be in the prototype stage, is expected to appear in operational units by the end of 1956 building up to an actual strength of about 50 aircraft by mid-1957 and 250 by mid-1959.

There has been some evidence of the existence of a large bomber designated the Type 31. On the basis of present evidence, it is highly doubtful that any substantial re-equipment of Long-Range Aviation units with Type 31 class aircraft has occurred to date, though possibly 15 or 20 may have been introduced. The Long-Range Aviation re-equipment program to replace the TU-4 is more likely to be accomplished by introduction of the jet bomber aircraft which have now appeared, and the Type 31 class probably will not be introduced in numbers.

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Air Defense Weapons

We estimate that at present Bloc defensive capabilities against air attack are insufficient to provide an adequate defense under the variety of senditions which could be expected to prevail. Through 1957 Bloc air defenses will probably be gradually strengthened by the introduction into operational units of new fighter aircraft, new radar equipment, new anti-aircraft weapons, and surface-to-air guided missiles. All-weather fighters in limited quantities are probably already being introduced into operational units, but problems related to the operation and maintenance of airborne intercept radar will probably take a minimum of 18-24 months to solve. The filtering phase of air raid reporting (combat information control) is expected to continue to be a major problem during the period of this estimate. However, the gradual improvement of weapons, equipment and training will be sufficient by 1958 to provide a Bloc air defense system substantially more effective than that now existing.

Submarines

The Soviet Navy is apparently concentrating on the construction of two long-range submarine types developed since World War II.

These are equipped with snorkel and have operating radii of about 4,700 and 6,700 miles respectively. By early 1955, 107 of these had joined the fleet and the present building rate is estimated as 75 per year. The Soviets are known to have continued development of the Walther closed-cycle engine for submarine propulsion and an experimental submarine powered by such an engine could be operational now. It is also possible that, during the period of this estimate, nuclear propulsion for submarines will have been developed by the USSR. However, there is no evidence of Soviet development of submarines equipped with either of these types of propulsion.

PROBABLE SOVIET COURSES OF ACTION

We believe that the developments within the sphere of Soviet power and the Soviet estimate of the world situation have led the Soviet leaders to assess their own situation somewhat as follows: the balance of military power in the world and the increasing destructiveness of nuclear weapons are such that general war would involve very heavy risks to the Communist sphere, extending possibly to the destruction of the Soviet system itself. On the other hand, non-Communist power is not so great that withdrawals from the present advanced positions in Europe and Asia seem necessary. Moreover, the prospects probably seem good that the increase of Bloc military capabilities, together with political defections or disunity on the non-Communist side, will gradually shift the balance of power in

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favor of the Soviet Bloc. In the meantime, the Bloc has a full agenda of internal problems which, while they do not imply a weakness requiring abandonment of expansionist aims or even the neglect of epportunities for expansion under circumstances of limited risk, do call for attention during the next five years at least. These problems include the further buildup of economic power in the Bloc as a step toward balancing the vastly greater economic potential of the West, and the correction of certain weaknesses in the Bloc economy, particularly in agricultural production.

We believe that during the period of this estimate, the Kremlin will try to avoid courses of action, and to deter Communist China from courses of action, which in its judgment would clearly involve substantial risk of general war. However, the USSR or one of the Bloc countries might take action creating a situation in which the US or its allies, rather than yield an important position, would decide to take counteraction involving substantial risk of general war with the USSR. We believe, moreover, that the Kremlin would not be deterred by the risk of general war from taking counteraction against a Western action which it considered an imminent threat to Soviet security. Thus general war might occur during the period of this estimate as the climax of a series of actions and counteractions, initiated by either side, which neither side originally intended to lead to general war.

The progress being made by the USSR in the development of nuclear weapons, and the increasing Soviet capability to deliver these weapons, are changing the world power situation in important respects. Soviet

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The Assistant Chief of Staff, G-2, and the Director of Intelligence, USAF, believe that the following should be substituted for the first sentence of this paragraph: "Although the Kremlin will probably try to avoid courses of action and to deter Communist China from courses of action that entail substantial risk of involving the USSR in general war, it may be more willing to support courses of action that would involve risk of a localized war between the US and Communist China. The support given such courses of action would depend largely on Soviet judgment as to the probable outcome of the war. If the Soviet leaders believed that it would result in a severe defeat to Communism, or the full-scale participation of the USSR in general war, they would probably exert pressure on the Chinese to avoid courses of action which would precipitate hostilities. On the other hand, if they estimated that the conflict could be limited to war localized in the Far East, and that it would result in greater relative damage to US strengths than to Communist strengths, they probably would support more adventurous courses of action on the part of the Chinese Communists."

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leaders almost certainly believe that as Soviet nuclear capabilities increase, the unwillingness of the US and its allies to risk general war will correspondingly increase, and that the Kremlin will therefore have greater freedom of action to promote its objectives without running substantial risk of general war. In any case, the USSR will probably be increasingly ready to apply heavy pressure on the non-Communist world upon any signs of major dissension or weakness among the US and its allies. Nevertheless, we believe that the Kremlin will be extremely reluctant to precipitate a contest in which the USSR would expect to be subjected to nuclear attack. The extent to which the Kremlin uses its increasing freedom of action will depend primarily on the determination, strength, and cohesiveness of the non-Communist world.

We believe that the Kremlin will continue to pursue its expansionist objectives and to seek and exploit opportunities for enlarging the area of Communist control. It will be unswerving in its determination to retain the initiative in international affairs and to capitalize on successes in order to keep the Free World on the defensive. For the near term, however, the Kremlin will almost certainly direct its external policies towards the immediate objectives of weakening and disrupting the mutual defense arrangements of non-Communist states, preventing or retarding the rearmament of Germany and Japan, undermining the economic and political stability of non-Communist states, and isolating the US from its allies and associates in Europe and Asia. At the same time it will continue to expand the industrial strength of the Bloc, and to maintain large modern forces-in-being as a guarantee of the integrity of the Bloc and as an instrument of intimidation in support of its policies abroad.

The Communists will vary the methods used to accomplish the foregoing aims and will time their actions so as to exploit situations that in their judgment offer the most favorable opportunities. For the time being, the Kremlin seems to feel that its foreign objectives will be best served by a generally conciliatory pose in foreign relations, by gestures of "peaceful coexistence" and proposals for mutual security pacts, by tempting proffers of trade, and by playing on the themes of peace and disarmament. The purpose of these tactics is to allay fear in some parts of the non-Communist world, to create the impression that there has been a basic change in Soviet pelicy, and therefore to destroy the incentive for Western defense, amd to undermine US policies. At the same time, however, the Communists continue to support and encourage nationalist and anticolonial movements, and to maintain their efforts to subvert governments outside the Bloc. We believe that the Kremlin will revert to more aggressive and threatening conduct whenever if feels that such conduct will bring increased returns. By such varieties and combinations of tactics Approved For Release 2005/08ዎቹን \$567ឝ DP67-00059A00010001 Decree 13 of 13

the Soviet leaders almost certainly consider that they can improve the chances for further Communist strategic advances. We do not believe that such tactics indicate any change in basic Communist objectives, or that they will involve any substantial concessions on the part of the Kremlin.

We believe that Southeast Asia almost certainly offers, in the Communist view, the most favorable opportunities for expansion in the near future. The Communists will almost certainly attempt to extend their gains in Indochina, and will probably expand their efforts to intimidate and subvert neighboring countries by political infiltration and covert support of local insurrections. We do not believe that the Communists will attempt to secure their objectives in Southeast Asia by the commitment of identifiable combat units of Chinese Communist armed forces, at least during the early period of this estimate. However, we find the situation in this area so fluid that we are unable to estimate beyond this early period.

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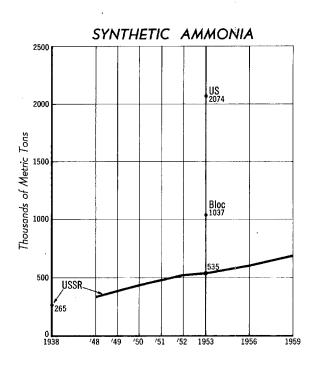
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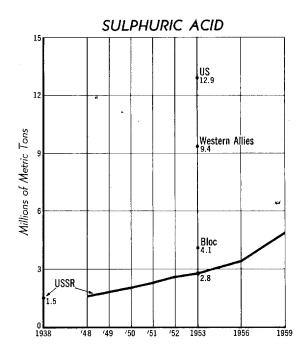
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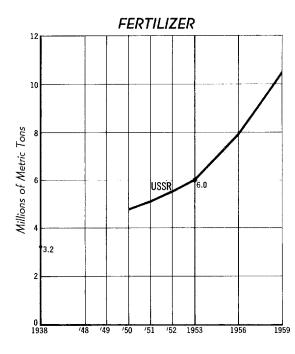
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Section II-A Figure 3

CHEMICALS PRODUCTION







The Western Allies of the US include the other members of NATO together with Spain and West Germany.

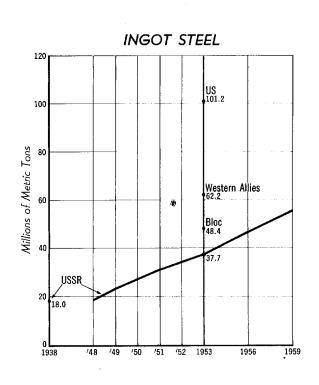
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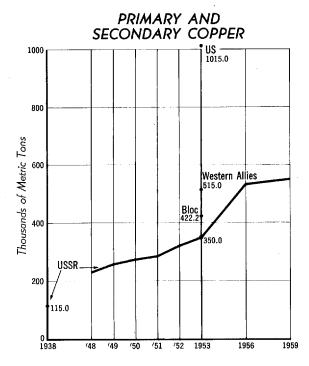
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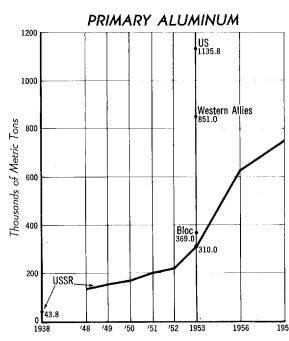
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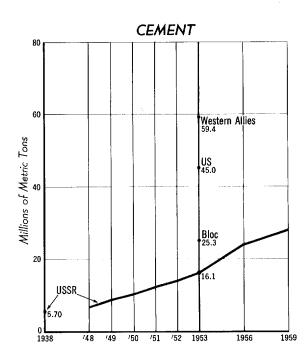
Section II-A Figure 2

METALS AND MINERALS PRODUCTION









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The Western Allies of the US include the other members of NATO together with Spain and West Germany.

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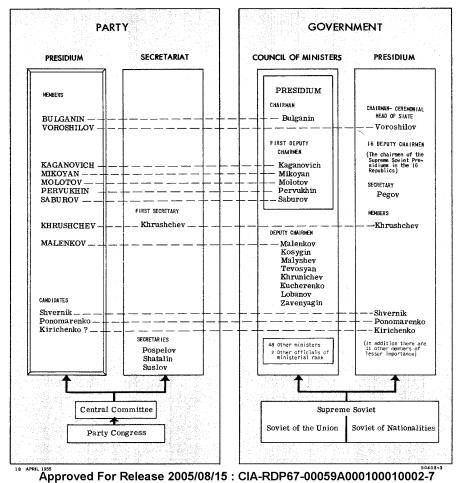
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II-A-l

FIGURE 1

USSR
PARTY AND GOVERNMENT ORGANIZATION

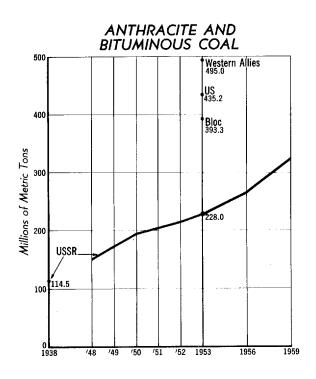


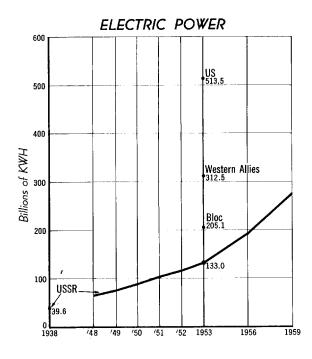
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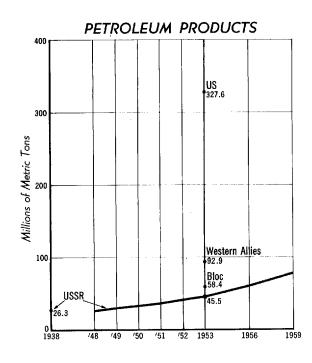
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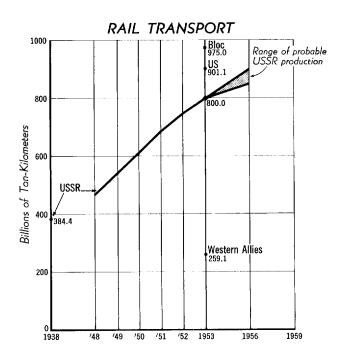
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ENERGY AND TRANSPORT







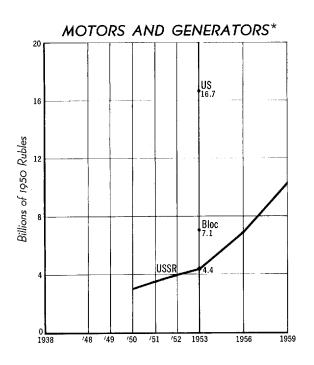


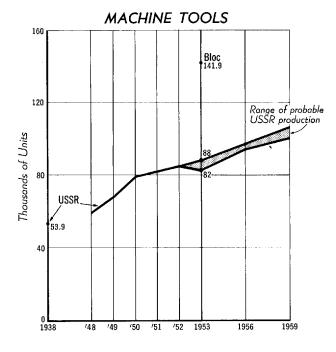
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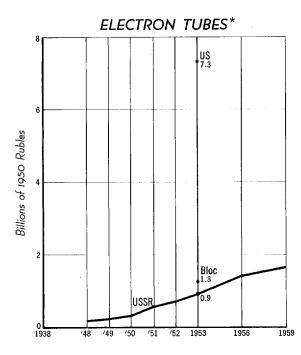
The Western Allies of the US include the other members of NATO together with Spain and West Germany.

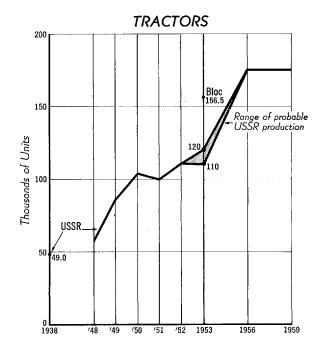
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MANUFACTURING









*In view of the somewhat heterogeneous composition of the items included in these categories, and the problems of dollar-ruble conversion, these estimates represent rough orders of magnitude of production rather than precise calculations of quantity or value.

The Western Allies of the US include the other members of NATO together with Spain and West Germany.

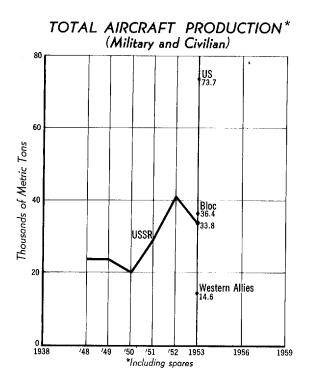
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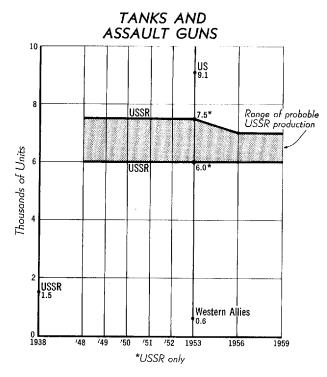
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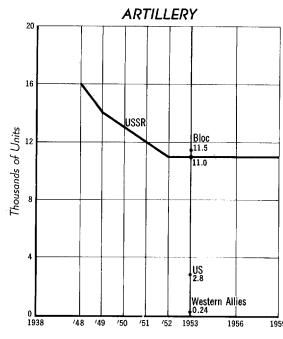
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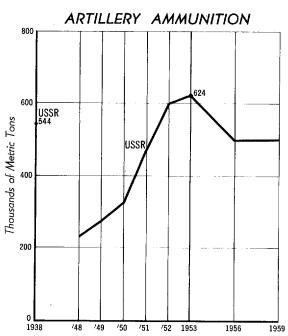
Section II-A Figure 6

MILITARY END ITEM PRODUCTION









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The Western Allies of the US include the other members of NATO together with Spain and West Germany.

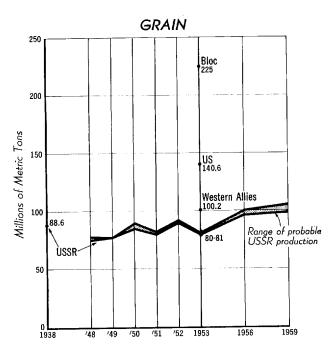
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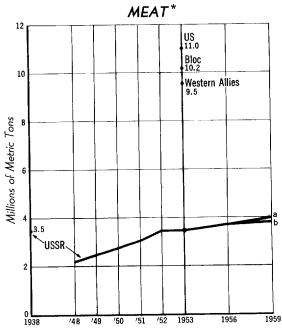
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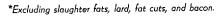
Section II-A Figure 7

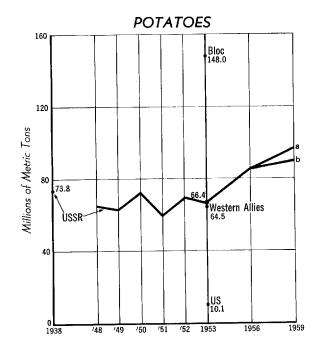
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AGRICULTURAL PRODUCTION









a Assuming the continuation of the policy of encouraging consumer goods expansion.

The Western Allies of the US include the other members of NATO together with Spain and West Germany.

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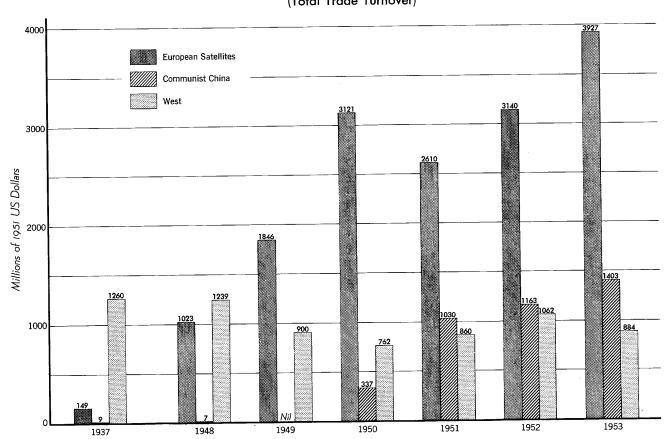
b Assuming the discontinuation of that policy.

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Section II-A* Figure 8

DIRECTION OF FLOW OF USSR FOREIGN TRADE, 1937 AND 1948-53 (Total Trade Turnover)



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US AND USSR

COMPARISON OF MAJOR SCIENTIFIC GROUPS AS OF MID-1954*

(In Thousands)

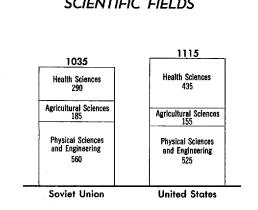
LIVING GRADUATES IN SCIENTIFIC FIELDS

Soviet Union - 1400



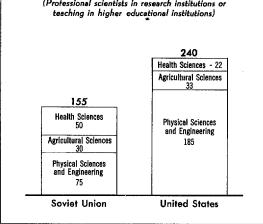
United States - 1700

GRADUATES EMPLOYED IN SCIENTIFIC FIELDS

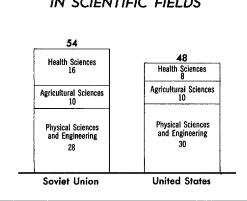


"SCIENTIFIC WORKERS"

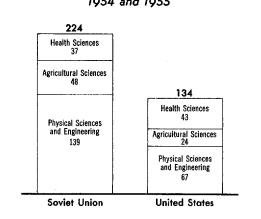
(Professional scientists in research institutions or teaching in higher educational institutions)



SOVIET KANDIDATS AND AMERICAN Ph.D.'s IN SCIENTIFIC FIELDS



SCIENCE GRADUATES 1954 and 1955



^{*}Numerical estimates of Soviet scientific personnel are believed to be correct to within plus or minus 10 percent.

SOVIET BLOC

В.	COMMUNIST	CHINA

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Political

Since their assumption to power in 1949, the Chinese Communists have undertaken to create an industrialized and militarily powerful state. At present, the energies of the regime appear to be devoted to the consolidation and expansion of China's **economic strength, modernization of military forces, and the transformation of China's political and social structure.

The Chinese Communists have adapted Soviet administration and political institutions and techniques to Chinese conditions. The highly centralized and dictatorial government has imposed a unitary state structure with direct lines of command down to the village level.

Ultimate power in China resides in the Communist Party and is vested in the Political Bureau (Politburo) of the Party's Central Committee.

Mao Tse-tung continues to dominate the government and party. By the terms of the Constitution, adopted in 1954, Chu Teh is in line to succeed. Mao as Chairman of the government, but actual power appears more or less divided between Liu Shao-ch'i, Chairman of the Standing Committee of the Congress, and Chou En-lai, Chairman of the Government Council.

Despite rivalries for power in the past, Chinese leadership has been marked by the cohesion and stability of the party elite. The first purge of major proportions since 1938 appears to have been in process since at least early 1954. The chief victims to date have been Kao Kang ("suicide"), former Politburo member and boss of Manchuria; and Jao Shu-Shih (present status unknown), former government head of the East China regional area. There is no firm evidence as yet as to the extent, intensity, or full cause of the purge campaign.

The precise manner in which Soviet influence or control finds its way into Chinese policies is not known. Soviet advisers almost

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^{*} This section contains a summary of NIE 13-54, "Communist China's Power Potential through 1957," 3 June 1954. A new NIE covering these questions is scheduled for preparation in the fourth quarter of 1955, NIE 13-55, "Communist China's Capabilities and Probable Courses of Action in Asia through 1960."

^{***} Except where otherwise indicated explicitly or by context, "China" and "Chinese," as used hereafter, refer to Communist China and the Chinese Communists.

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certainly are in contact with Chinese leaders, but it is unlikely that they issue direct orders. The USSR is able to exert influence over Chinese policies primarily by virtue of their common ideology and China's economic and military dependence on the USSR.

The Communist regime has vigorously and ruthlessly set about establishing political control over the Chinese people. To do this, it has employed a wide array of programs, ranging from inducements and patriotic appeals to coercion and terror.

The Communists have had considerable success in winning support from certain government workers, members of the armed forces, skilled industrial workers and particularly the youth.

Through terror and force, the Communists have eliminated the landlord class and thousands of businessmen, professionals, and former government officials. There is no evidence of significant organized resistance. To insure its control, the regime has established extensive security forces in addition to the army.

Although much of the voluntary support the regime received in 1949 has been dissipated, such dissatisfaction as now exists in China has neither the universality, the intensity, nor the physical means by which to transform itself into effective resistance.

China's domestic interest, international relationships, and long-term aspirations have resulted in a foreign policy along these broad lines: (a) maintenance of the alliance with the USSR; (b) aid to indigenous Communist parties and groups in non-Communist Asian countries; (c) continued application of political warfare pressure against non-Communist Asia, and intense military and political pressure against the Chinese Nationalists*; (d) diplomatic and propaganda efforts designed to enhance China's prestige and world status. Such a policy appears to be designed to further China's domestic and international objectives without provoking full-scale conflict with the West. It also appears to be based on the belief that time will work to Communist advantage in achieving China's international aspirations.

^{*} See NTE 100-4-55: "Communist Capabilities and Intentions with Respect to the Offshore Islands and Taiwan Through 1955, and Communist and Non-Communist Reactions with Respect to the Defense of Taiwan," 16 March 1955.

Economic

China is an underdeveloped agricultural country with a population of 600 million. China's 1952 estimated gross national product (GNP) of approximately US \$27 billion* was less than one-third of Soviet and about one-fourteenth of US GNP. China's per capita GNP of less than roughly US \$46 is not quite equal to that of India and only one-quarter that of Japan. While there are the beginnings for a modern industrial development, the present contribution of the industrial sector to total output is small. The regime faces a formidable task in achieving its long-term goal of a modern industrial economy.

By 1952 the Chinese national budget had risen to about a third of the GNP, a substantially lower proportion than in the case of the USSR. The two most important categories of budget expenditures during this period have been military outlay and capital investment.

In 1949 production was extremely low. By the end of 1952, the Chinese had succeeded in general in rehabilitating the economy. Steel production exceeded by roughly one-quarter the highest levels reached between the years 1937 and 1945; grain and power production were slightly above this level; and coal output was about three-quarters of this level.

The general rise in domestic production and trade, the great expansion of overland trade between the Soviet Bloc and China, and the movement of military supplies to Korea have increased demands on Chinese transport capacity. The regime has almost restored the rail net as it existed in 1945. The Communists have also brought to completion more than 1,600 miles of new lines (as of the end of 1954). However, the rail net is still inadequate in many areas. Drastic measures are being employed to stretch present capacity. Other forms of transport have played a smaller part in the regime's program.

Although the Communists have made considerable progress in rehabilitating the Chinese economy, the basic pattern remains unchanged. Agriculture is still the primary activity and per capita production is still low. Moreover, the geographic concentrations of economic activity within China remain substantially unchanged.

On the other hand, the Communists have made a major change in the direction and composition of China's foreign trade. In 1938 practically all of this trade was with countries not now in the Soviet Bloc, while in 1952 the Soviet Bloc accounted for about 70 percent of China's foreign trade. In terms of constant dollars, China's total foreign trade in 1952

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Estimates based on 1952 data are used generally throughout. The 1954 GNP will prove to be modestly greater, but changes since 1952 are believed not to have altered the general order of magnitudes or the relationships.

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was roughly the same as in 1938. Imports of consumer goods in 1952 constituted a smaller proportion of the total than in 1938. Imports of military supplies in 1952 constituted a much greater proportion of the total than in 1938. Imports of capital goods and industrial raw materials constituted about the same proportion in 1952 as in 1938. These changes in direction and composition have come about in part because of China's new political relationship with the Soviet Bloc, in part because of Western trade restrictions, and in part because of the requirements of China's programs of economic and military development.

Military

The internal control and the international power position enjoyed by the Communist regime rest largely upon the power potential of China's military establishment. Within China, the armed forces hold a position of unique privilege and power in the state hierarchy. The loyalty of the military forces adds greatly to the regime's power to coerce the people. The Chinese military establishment is at present the largest of any Asian nation, with over $2\frac{1}{4}$ million men in the field forces and an actual aircraft strength of more than 1,500. These forces, supported by the USSR and greatly improved by the Korean War, have given the Communists an overwhelming military advantage over the countries of non-Communist Asia and have profoundly affected the over-all balance of power in Asia.

The Chinese air capability was not fully tested in Korea. The Chinese have a fair capability in air defense, but only under good visibility conditions. The Chinese Air Force has some capability for tactical support operations. It also has a sizable force of light bombers, both jet and piston, and a few medium bombers. The Chinese Navy, though low in over-all operational effectiveness by US standards, has demonstrated considerably improved effectiveness in recent small engagements in the Taiwan Straits area. Moreover, it now is believed to operate 2-5 submarines.

The major weakness of the Chinese armed forces is their lack of domestic supply facilities and their concomitant dependence upon the Soviet Union. At the present time this weakness would become critical in the event of a general war in the Far East which involved both the Soviet Union and China.

Estimate of Probable Developments

The Chinese Communists have as their long-range goal the development of a Soviet-style state in China, with its own bases of economic and

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military strength, and dominant in Eastern and Southern Asia. To this end they will proceed, as rapidly as possible, through the forced and ruthless measures characteristic of Communist regimes, to reorganize the social structure along Communist lines, improve the effectiveness of the administrative system, and develop the economy to the extent feasible. The regime will devote substantial resources to modernizing and strengthening its armed forces as a power base for its foreign policy.

Although the Chinese plans for economic development are not known in detail, it appears that these plans contemplate an increase in total output in 1957 to 20-25 percent above the 1952 level. Emphasis is placed upon increasing the output of the modern industrial sector, particularly heavy industry and transport. Fulfillment of the regime's economic plans depends upon increasing agricultural output while rigorously restricting consumption so as to provide the resources needed to support the industrial investment and military programs. A large part of the capital goods needed to fulfill the program will have to be obtained from the rest of the Soviet Bloc in return for Chinese exports. Available resources will have to be efficiently allocated to ensure that crucial sectors of the economy, such as transport, meet the demands generated by increasing production.

Barring a major crisis or other unpredictable event, it is probable that China will have attained by 1957 a GNP of roughly US \$32 billion, an increase of 20-25 percent over the 1952 figure. It is probable that agricultural output will be about 10 percent higher than in 1952, and the output of the modern industrial sector of the economy 70-100 percent higher. The increases in individual industries (including transportation) will of course vary widely from this over-all rate of increase. Even by 1957, however, the Communists will only have begun the modernization of China's economy. The country will as a whole remain agrarian and underdeveloped.

It is probable that by 1957 the Chinese regime will have increased its administrative efficiency and have further tightened its entrol over its people and resources, but the regime will not have been able substantially to alter traditional social patterns or to obtain more than passive acceptance from the bulk of the population. However, the regime's ability to direct and control China will probably not be significantly impaired. Furthermore, the regime will probably be able to master leadership problems that are likely to arise, even in the event of the death or retirement of Mao Tse-tung.

It is probable that the military establishment will gain in strength and effectiveness during the period through 1957 as a result of the regime's program of modernization and training. Soviet assistance will continue to be essential to the fulfillment of this program.

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China's dependence on the USSR will probably not be significantly lessened by 1957, and maintenance of the alliance with the USSR will continue to be a dominant aspect of China's foreign policy. The Chinese Communist regime will continue to consolidate its political position, to gain in economic and military strength and by 1957 will be a more powerful force in world affairs than at present. Certain aspects of China's development will be used to support claims that time is on the Communist side in Asia. China's increased power and prestige will present a challenge to the influence of the Western nations in Asia, and to the Asian leadership aspirations of India and Japan.

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SOVIET BLOC

(See charts following these pages)

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Soviet Policy

Soviet policy in the Satellites is directed toward developing them into a strong area of the Soviet empire which will increase Soviet power and strengthen the Soviet world position. Soviet control of the Satellites is based on the Soviet armed forces stationed in Eastern Europe, on the MVD (Soviet security services), on Soviet diplomatic, economic, and military missions in each Satellite, on individual Soviet citizens in key positions, and is exercised through the Satellite Communist parties and governments.

The Satellite Communist parties, the leaders of which are approved by the Kremlin, constitute the principal instrumentality for implementing Soviet policy. The subservience of the Satellite Communist parties to the new Soviet rulers is complete.

The Soviet Union exercises control over the economic development of the Satellites by fixing over-all production goals and priorities, and by supervising their foreign trade. Satellite economic plans are prepared in accordance with general policies issued by the Soviet Union.

The Soviet pattern of intellectual, cultural, and religious life is being imposed upon the Satellites. The Satellite governments have a monopoly over the schools and all mass-information media and have brought church organizations under the control of the state. The educational system has been reorganized, and teaching staffs and libraries have been purged. Finally, the cultural influence and autonomy of family life has been disrupted.

The USSR continues to maintain strong combat-ready forces, totalling an estimated 531,000 army troops, 24,000 security troops, and 1,800 aircraft (estimated actual strength) in the Satellites, mostly in East Germany.

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^{*} This section, with some updating, is a summary of NIE 12-54, "Probable Developments in the European Satellites as They Affect Soviet Capabilities, through Mid-1956," 24 August 1954. The term "Satellites" includes East Germany, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, and Albania.

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The relationship between the Satellites and the USSR remains basically unchanged since the death of Stalin, but the new Soviet leadership has adopted a more flexible attitude toward the Satellites under Malenkov and more recently, under Kruschev. These changes, however, represent a refinement of method rather than a reduction in control.

The Satellite leadership groups, which have become almost completely reliable through a continuous process of selection and purging, remain virtually unchanged. Moves taken by the Satellites to give a greater appearance of "collective" leadership are probably imitations of the Soviet pattern. The USSR continues to place great emphasis upon strengthening the Party position in the Satellite countries.

The principal obstacle to the Sovietization of Eastern Europe is the continued opposition of the Satellite populations. However, the effectiveness of this opposition is severely constricted by the controls imposed on every aspect of the lives of the people. There is virtually no organized active resistance and only little unorganized active resistance. On the other hand, passive resistance continues to be widespread and to constitute a serious drag on economic programs. The more prevalent forms of passive resistance are worker absenteeism, work slowdowns, crop-delivery evasion, increased church attendance, and whispering campaigns.

The imminent approval of West German rearmament has caused the USSR to call at least one Satellite conference during the past six months, probably for the double purpose of establishing a solid political front and preparing for an integrated Satellite defense command to offset the growth of West German military strength.

Economic

In 1953, the Satellites undertook revisions of economic plans which — like the plan revisions in the USSR — were aimed at increasing the production of agricultural commodities, especially foodstuffs, and of manufactured consumer goods. These revisions were occasioned mainly by the adverse cumulative effects of overemphasis on heavy industry at the expense of agriculture and light industry. The various Satellite economies have now virtually reached the point in their development where manpower, raw materials and plant will be the controlling factors in their growth, rather than any shifts in emphasis promulgated by the Soviet leadership.

Over-all Satellite industrial production was back to the 1938 level by 1951 and in 1953 it was about 25 percent above the prewar level. The most impressive growth has been in the production of machinery and equipment, chemicals, metals, energy, and building materials, generally in that order.

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In contrast, Satellite agriculture has lagged seriously. Although the output of industrial crops returned to the prewar levels between 1948 and 1950, over-all agricultural production has not yet regained the prewar level of production. Over-all agricultural output in 1951 was an estimated 14 percent below the prewar level, but it slipped back in 1953 to approximately 21 percent below that level.

Total agricultural collectivization continues to be the acknowledged long-term goal of Satellite governments. However, the Satellite leaders of East Germany, Czechoslovakia, and especially Hungary, have attempted to encourage production by private peasants by offering temporary concessions.

By the end of 1953, the combined GNP (Gross National Product) of the Satellites had returned approximately to the level of 1938. Total Satellite GNP in 1953 was an estimated 45 billion of 1951 US dollars or about two-fifths that of the USSR. In 1953 Poland, East Germany, and Czechoslovakia contributed over 80 percent of the total Satellite GNP, while Hungary, Rumania, and Bulgaria (in that order) accounted for less than 20 percent.

The most important development in Satellite foreign trade has been its recrientation away from Western countries toward the Bloc. The trade of the Satellites with the West declined from more than four-fifths of their total trade before the war to less than one-third in 1951 and 1952. During the same period, Satellite trade with the USSR increased from one-hundreth to over one-third of the total trade.

The scientific and technical capabilities of Eastern Germany and Czechoslovakia, and to a lesser extent Hungary and Poland, constitute substantial additions to those of the USSR. In particular, the electronics and communications research capabilities of East Germany, Czechoslovakia, and Hungary, and the optics research capabilities of East Germany are of considerable value to the Soviet Union.

The main contribution of the Satellites to the Soviet nuclear program is in uranium ores and concentrates. It is probable that East Germany is currently providing about half of Bloc production of uranium ores and concentrates. The other Satellites are less important sources. The USSR, however, is not dependent upon Satellite sources. If necessary, the Soviet atomic energy program could probably be supported at its present level of operation from internal Soviet sources alone.

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Military

The strength of the Satellite ground forces is estimated at 1,115,000 men organized in 82 line divisions, of which 6 are armored and 13 mechanized. These forces are supplemented by Satellite security troops which total about 306,000 men. The USSR controls these Satellite forces by direct Soviet staffing in Poland and by large Soviet military missions in all other countries.

The Satellite armies are equipped largely with Soviet World War II material of good quality, but they would require substantial amounts of additional supplies and equipment for sustained combat. They are dependent upon the USSR for most of their heavy equipment.

The questionable political reliability of the Satellite armies places a significant limitation upon their military usefulness. At present the Kremlin could probably not rely upon the majority of the Satellite armies in a general war except for employment in secondary roles or in a defensive capacity.

The Satellite air forces now have an estimated TO&E strength of 3,600 aircraft of all types (approximately 2,400 actual). Piston fighters continue to be replaced by jet fighters, and other equipment is being modernized. Training is being improved.

The current operational capabilities of these forces are unevenly developed. Furthermore, the political reliability of the Satellite air forces, like that of the Satellite armies, is questionable.

Owing to their small size, their meager equipment, and the unreliability of the personnel, the Satellite navies lack the capability of making more than a minor contribution to Soviet naval strength.

Estimate of Probable Developments

The Kremlin almost certainly regards the maintenance of the Soviet position in Eastern Europe as essential for: (a) safe—guarding the military security of the USSR through possession of advanced bases and defensive positions outside Soviet frontiers; (b) adding to the economic and military resources of the USSR; (c) upholding the prestige of the USSR in its role as leader of the world Communist movement; and (d) checking the re-emergence of a powerful Germany allied with the West. It is likely, therefore, that the Kremlin will continue to push forward its long-term plans for integration of the Satellite countries into the Soviet system, though almost certainly not, during the next two years, to the point of outright incorporation into the USSR.

Soviet control of the Satellites remains virtually complete and is unlikely to diminish or to be successfully challenged from within during the next two years. Although the principal obstacle to the Sovietization of Eastern Europe is and will continue to be the opposition of the Satellite populations to Communism and Soviet domination, this opposition alone will not seriously impair Soviet control or threaten the stability of the Satellite governments.

The revisions of Satellite economic plans have not altered the Kremlin's basic aim of increasing as rapidly as practicable the Satellites contribution to Soviet economic power. The 1953 revisions were aimed primarily at removing the threats to future industrial growth by correcting the imbalances in the Satellite economies resulting from an overemphasis on heavy industry at the expense of agriculture and light industry. In essence, they provide for slowing down the expansion of heavy industry in 1954-1955 and for increasing the resources allotted to agriculture and consumer industries. Nevertheless. Satellite economic policies will still be strongly oriented toward development of heavy industry. At the same time, defense outlays will probably be maintained at approximately present or only slightly higher levels. These revisions have not resulted in any significant improvement in the standards of living and it is probable that the Satellite governments in two years time will be faced with much the same basic economic problems as at present.

It is estimated that total Satellite GNP in 1953 was about two-fifths that of the USSR and that the Satellite share of total Bloc GNP will remain substantially unchanged through 1956. During this period the growth rate will probably average about 4 percent annually as compared with an average of 6 percent annually from 1948 through 1953.

The Satellite armed forces have become a substantial element in the balance of military power in Europe. It is probable that the Satellite armies will reach an over-all peacetime strength of approximately 1,265,000 men by mid-1955 and that no substantial increase is likely thereafter. It is estimated that by mid-1956 the Satellite air forces will probably have a TOME strength of 4,400, of which 2,450 will probably be jet fighters. During the next two years Czech and Polish production will probably be adequate to meet all Satellite peacetime requirements for jet fighters and ground-attack aircraft. It is likely that while the Satellite armed forces would probably fight well against traditional enemies, their reliability will remain sufficiently questionable during the next two years to place a significant limitation upon their military usefulness in event of general war.

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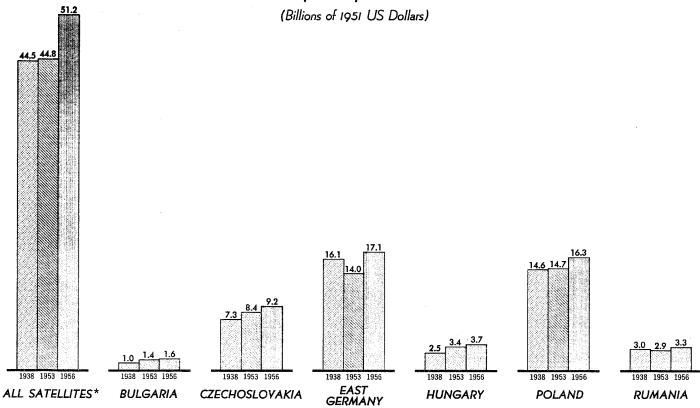
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II–C Figure 1

SATELLITES*

ESTIMATED GROSS NATIONAL PRODUCT 1938, 1953, and 1956



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*Excludes Albania

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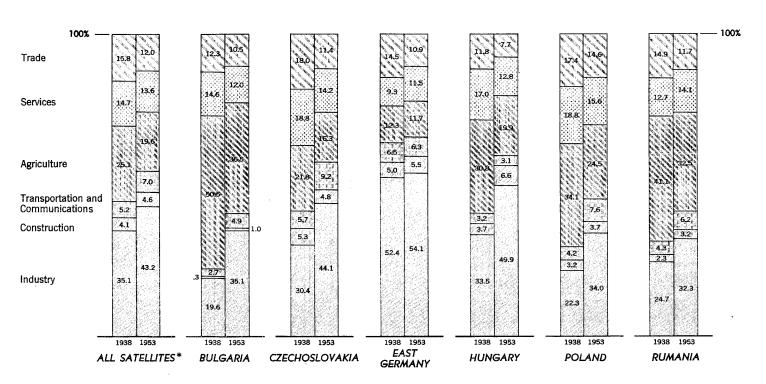
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II-C Figure 2

SATELLITES*

ESTIMATED DISTRIBUTION OF GROSS NATIONAL PRODUCT BY SECTOR OF ORIGIN, 1938 and 1953

(In Percent)



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*Excludes Albania

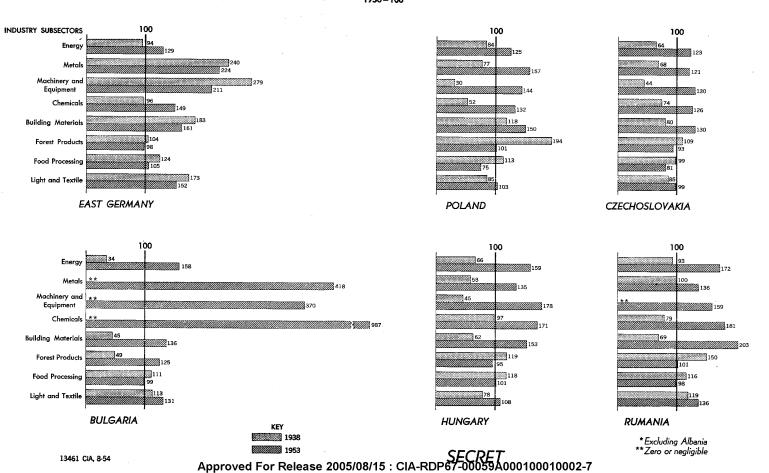
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Figure 3

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SATELLITES* ESTIMATED PRODUCTION INDICES 1938 and 1953 1950-100

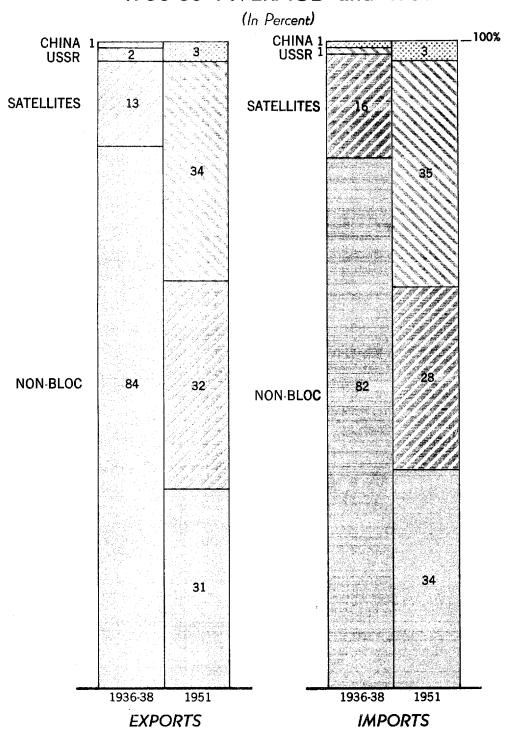


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II–C Figure 4

SATELLITES

ESTIMATED GEOGRAPHIC DISTRIBUTION OF TRADE 1936-38 AVERAGE and 1951



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SOVIET Approved For Release 2005/08/15 CIA RDP67-00059A000100010092-7: Page 1 of 3

E. REVIEW OF CURRENT COMMUNIST ATTITUDES

TOWARD GENERAL WAR*

Chinese Communist Attitudes

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Chinese Communist propaganda and diplomatic representations demonstrate that the regime is strongly committed to the "liberation" of Formosa, the Pescadores, and the offshore islands. The Chinese Communist leaders give every indication of holding to this position. Moreover, Peiping has long regarded the continued presence in the Formosa Strait and on Formosa itself of a Nationalist China supported militarily by the US as at least a long-range threat to its security.

We believe that the Chinese Communists will refrain from courses of action which they estimate will involve them in full-scale warfare with the United States.

However, we believe that the Chinese Communist attitude with respect to war is bold, sometimes boisterous, sometimes sophisticated, and that the Chinese Communists are therefore likely to test the upper limits of US tolerance with a variety of substantial military actions. Moreover, in the light of Chinese Communist activities in recent months and their reactions to the recent US policy pronouncements on the defense of Formosa and the Pescadores, we are not confident that the Chinese Communists clearly understand which, if any,** of the offshore islands the US would defend with its own forces, the circumstances under which the US would defend them, or the extent to which the defense would be carried. We believe, therefore, that the Chinese Communists may miscalculate the degree of risk which military actions on their part in this area would entail.

In any event, we believe that the Chinese Communists will probably take military action against the offshore islands of sufficient scale to test US determination to halt their advance at some point. They might even*** attempt to take Quemoy, Matsu, or Nanchi regardless of whether they estimated that the US would participate in the defense of these islands.

***The Assistant Chief of Staff, G-2, Department of the Army, believes that the words "might even" should read "probably will."

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[#]This section contains the text of SNIE 11-4-55, "Review of Current Communist Attitudes Toward General War," 15 February 1955. NIE 11-4-54, "Soviet Capabilities and Probable Courses of Action through Mid-1959," has dealt with this problem on a long-term basis. The above estimate is confined to a short-term, and is written primarily with reference to the situation respecting Formosa and the offshore islands.

^{**}The Deputy Director for Intelligence, The Joint Staff, would delete the words "if any."

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They may not be convinced, in the light of the restraint exercised by US policy in Korea and Indochina, that the US would in fact react to attacks on the offshore islands by attacks on the mainland. Or, they may believe that the scale of any US reaction, even if it involved some attacks against the mainland, could be controlled by them, perhaps by diplomatic action at a critical juncture, in which they would count heavily on the restraining influence of US allies on US policy. Finally, they may believe that the US would not be willing to react to their actions in ways which could lead by stages to full-scale war against them, and perhaps eventually to war involving the USSR. If the Communist judgments did in fact prove to be mistaken, a series of actions and counteractions might be set in train which could bring about unlimited hostilities between Communist China and the US.

Soviet Attitudes

We believe that the Soviet leaders view general war as a hazardous gamble which could threaten the survival of their system. Accordingly, we believe that they will not deliberately initiate general war, and will try to avoid courses of action which in their judgment would clearly involve substantial risk of general war. We believe that the recent changes in Soviet leadership do not indicate any increased disposition on the part of the regime to risk such a war.

The Kremlin would not be deterred by the risk of general war from taking counteraction against any Western action which it regarded as an imminent threat to its security. However, we see no evidence that the Kremlin estimates any recent action by the Western Powers, including progress so far made toward German rearmament, as constituting such an imminent threat.

The new Soviet leadership has expressed "full approval and support" for Chinese Communist "policy" with respect to Formosa and the offshore islands, but has left uncertain the extent to which the USSR would support a Chinese Communist effort to take Formosa and the offshore islands by military action. We believe that Moscow might see certain advantages in clashes between Chinese Communist and US forces, at least as long as it believed that the clashes would be limited and localized. Both Soviet and Chinese Communist leaders probably estimate that strictly local conflict between the Chinese Communists and the US, with the accompanying increase of international tensions, would serve their interests. They may estimate, for example, that the US in these circumstances would not have the support of its allies or of world opinion in a defense of the offshore islands, and that the result would be an increasing isolation of the US. Under these circumstances they might believe that US progress toward its objectives elsewhere, including West German

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rearmament, would be impeded, and that Soviet aims would thereby be served.

However, the Kremlin would almost certainly be concerned that military conflict between the US and Communist China could not be kept limited and localized. It would almost certainly estimate that unlimited war between the US and Communist China not only would endanger the existence of the principal ally of the USSR, but also would involve substantial risk of spreading into general war. Hence, it would probably attempt to exert a restraining influence if it judged that appreciable danger of unlimited war between the US and Communist China were developing. If such war did occur, we believe that the USSR would support its ally in carrying on the war, but would not assist with its own forces to such an extent as, in its judgment, would cause the US to attack targets in Soviet territory. We believe that the USSR would openly intervene in the war if the Soviet leaders considered such intervention necessary to save the Chinese Communist regime, but the Soviet leaders would still try to confine the area of hostilities to the Far Fast.*

"Should the conflict progress so far that destruction of the Chinese Communist regime appeared imminent, we believe that the Soviet leaders would recognize that open intervention on their part against US forces sufficient to save the Chinese regime would involve grave risk of general war with the US. Their decision would probably be based on existing military, political, and economic strengths, with particular emphasis on the current disparities in nuclear stockpiles and delivery capabilities. We believe that the Soviet leaders would probably conclude that if they intervened, the conflict could not be confined to the Far East, and that Soviet strengths were insufficient to risk their own regime in this manner."

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^{*}The Director of Naval Intelligence and the Deputy Director for Intelligence,
The Joint Staff, believe that the following should be substituted for the
last sentence:

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SOVIET BLOC

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F. Probable Soviet Response to the Ratification of the Paris Agreements*

ROLE OF GERMANY IN POSTWAR SOVIET POLICY

The role that a restored Germany would eventually come to play in Europe has been a key issue in the postwar power struggle between the USSR and the Western Powers. Despite the tremendous postwar growth of Soviet power compared with that of Germany, Soviet fear of Germany, sustained by the memory of Nazi aggression, has remained a powerful force. Soviet policy in Europe since 1945 has been designed to prevent any German settlement which would permit the alignment of a rearmed Germany on the side of the Western Powers. This policy has apparently been based on a belief that the addition of German power to the Western alliance would constitute a serious blow to Soviet prestige, would seriously hamper further Communist expansion in Europe, threaten Soviet control over the Satellites, and perhaps even jeopardize the security of the USSR.

PROBABLE SOVIET ESTIMATE OF THE SIGNIFICANCE OF RATIFICATION

The rearmament of even West Germany and its inclusion in the NATO alliance is almost certainly viewed by the Soviet leaders in a perspective of such risks and dangers. They probably doubt that West German military forces would be kept within the proposed limits, and probably recognize that the net increase in the strength of the military combination which the USSR confronts in Europe would be greater than indicated by the simple addition of a particular number of West German divisions. On the other hand, the Soviet leaders probably estimate that it would require about three years to complete the proposed rearmament program in West Germany. They would probably consider, therefore, that the potential threat involved in West German rearmament would not emerge at an early date and that there would remain time for possible counterbalancing developments.

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^{*} This section is an abstract of NIE 11-55, "Probable Soviet Response to the Ratification of the Paris Agreements," 1 March 1955.

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PROBABLE SOVIET COURSES OF ACTION

We believe it unlikely, therefore, that the initial Soviet response to ratification of the Paris Agreements would be based on the assumption that the security of the USSR was immediately endangered. We believe that the USSR would take measures to improve its military position, would employ all political and subversive means to prevent or impede rearmament in West Germany and to obstruct its cooperation with its Western partners, and would attempt to compensate elsewhere, under conditions of limited risk, for the accretion to Western strength resulting from West German rearmament. This general pattern of response would exclude a military action which, in the Soviet view, would involve substantial risk of general war. It would also exclude major concessions which could provide the basis of a German settlement with the Western Powers.

In conjunction with this general line of strategy, we do not believe that there would be any fundamental shift in the Soviet public posture, but the USSR might for a time adopt a more menacing attitude. In view of the vigorous campaign they have made against ratification, the Soviet leaders would probably take some of the measures they have threatened, notably the denunciation of the pacts with the UK and France, and the establishment of an East European defensive system. They might even invoke the terms of the Soviet-Finnish Mutual Assistance Treaty of 6 April 1948.

Attitude Toward Negotiations on Germany. We believe it unlikely that the USSR would participate in four-power negotiations on Germany for some time after ratification. Nevertheless, the Soviet leaders recognize that the German desire for unity will persist and that, as long as the USSR retains the capability to grant or withheld unification, it may be able to inhibit the pace and reduce the scale of German rearmament through negotiations, or the promise of negotiation. For these reasons, we believe that the USSR would be willing, after an interval, to negotiate further on Germany. However, it is highly unlikely that the USSR would agree to German unification on terms that would be acceptable to the West.

Berlin. Since we estimate that the Soviet response to ratification would not include any moves which would entail substantial risk of war, we do not believe that the Soviet leaders would take strong measures to force the Western Powers out of Berlin. Nevertheless, West Berlin border controls would probably be tightened and there would probably be some harassment of Western access to the city by

way of probing Western determination to maintain the Berlin position. Such moves might be associated with an East German program to build up defenses, and would probably be carried out by the East German regime. In consequence there is likely to be some increase of tension over Berlin in the period immediately following ratification. We believe, however, that the Soviet leaders would be concerned not to allow such a situation to get out of hand.

Austria. In the initial period following ratification, the Soviet authorities, alleging violation of zonal agreements for Austria, may re-establish zonal border controls, and even threaten to partition the country. We believe it unlikely, however, that the Soviet leaders would permit any such actions to go beyond the stage of demonstration, or that they would take any course which would limit their freedom of action in using the Austrian issue for future bargaining with the West.

Bloc Defense Measures. Among the measures which the USSR would probably take to improve its military posture would be the creation of the joint command structure for Eastern Europe forecast at the recent Moscow conference of Bloc states. We also believe it possible that the USSR would strengthen Soviet forces in the Satellites, particularly in East Germany. Satellite forces may likewise be strengthened. The East German forces are likely to be unveiled as a national military establishment and strengthened somewhat, possibly by the introduction of conscription.

The USSR would probably accelerate the strengthening of its own armed forces if German rearmament showed signs of successful implementation. However, we see no indication, even in the most recent Soviet budget, of an intention to begin an early rapid build-up of Soviet armed strength. Since the Soviet leaders probably believe that ratification of the Paris Agreements poses a potential rather than an immediate threat to Soviet security, we believe that Soviet policy will continue to emphasize long-term qualitative improvement rather than short-term enlargement of its military forces.

If at any stage in the process of implementing the Paris Agreements the various courses of action described above did not, in the Soviet view, sufficiently offset the developing threat of German rearmament, we believe the Soviet leaders would almost certainly take further measures in the attempt to counter this accretion to the strength of the West. These measures would include primarily a sharp build-up of Soviet and Satellite military capabilities.

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They might also include more threatening courses of action against Berlin, or in the Far East, or elsewhere, with the purpose of arousing fear of nuclear war in the West and causing Western peoples to demand that their governments follow a cautious policy. We believe that, at this stage, the USSR would adopt bolder courses of action than it had previously, but would avoid those which in its judgment clearly entailed the probability of general war.

ALTERNATIVE SOVIET COURSES OF ACTION

It is possible that the Soviet leaders may at any time decide that they cannot adequately offset the developing threat of German rearmament. In this case, they would be confronted with two broad alternatives: (a) to undertake an early showdown with the Western Powers on this subject, possibly including the use of force involving grave risks of general war; (b) to attempt to negotiate a settlement in which both Western and Soviet troops would be withdrawn and a reunified Germany would be neutralized with controlled armaments. We believe the USSR would reject the first alternative as too hazardous a gamble under currently prevailing circumstances. In view of the grave disadvantages entailed, we believe the second alternative is only a possibility, but it might be adopted if the Soviet leaders believed it offered the only means, short of general war, to prevent the development of a critical threat to the security of the USSR. We believe, however, that the Kremlin would be more likely to adopt the courses of action described in the preceding paragraph.

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FAR EAST

A. Communist Courses of Action in Asia *
Through 1957 **

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Although the USSR possesses preponderant influence in the Simo-Soviet partnership, the main outlines of Communist policy in Asia are almost certainly determined jointly by consultation between Moscow and Peiping, not by the dictation of Moscow. Chinese Communist influence in the Simo-Soviet alliance will probably continue to grow. It is estimated that such frictions as may exist between Communist China and the USSR will not impair the effectiveness of their alliance during the period of this estimate.

The Communists will attempt to impress free world countries, particularly Japan and the Asian neutrals, with their willingness to negotiate outstanding issues. In so doing, they will probably make proposals from settlements which may be attractive to some non-Communist nations but contrary to US interests, and, as at Geneva, may on occasion make significant procedural and tactical concessions. Communist China may attempt to negotiate, on the basis of the Chou-Nehru five points, a series of mutual nonaggression coexistence understandings with most of its Asian neighbors. In these efforts, the Communists will continue to seek greater recognition and acceptance of the Peiping regime, and to hold out the promise that Asian and world problems can be solved by Great Power deliberation if Peiping is permitted to participate therein. In addition, the wisdom of closer diplomatic ties with Peiping will be impressed upon non-Communist Asia by constant exaggeration of Communist China's strength, progress, and peaceful intent. The Communists will almost certainly make every effort to publicize the attractive possibility for non-Communist nations of increased trade with the Bloc. It is probable that Communist China will continue to exchange trade missions with many non-Communist countries and to negotiate trade agreements, both formal and informal, which express hopes of a high level of trade and disapproval of trade restrictions.

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^{*} Asia, as here used, includes Japan, Taiwan, the Philippines, Indonesia, Ceylon, and all of mainland Asia east of (but not including) Iran and Afghanistan.

^{**} This section is largely a summary of NTE 10-7-54, **Communist Courses of Action in Asia through 1957, ** 23 November 1954.

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Page 2 of 14Approved For Release 2005/08/15 : CfA-RDP67-00059A000100010002-7

The Chinese Communists will continue their efforts to subvert and exploit the overseas Chinese in Southeast Asia. The degree of Communist success in exploiting the overseas Chinese will be strongly influenced by the over-all fortunes of Communist China. However, because the usefulness of most of these Chinese is limited (their members are apolitical, culturally isolated, and disliked by the indigenous populations), the Communists will probably concentrate their activities primarily on the governments and indigenous populations of Southeast Asian countries.

Communist China will continue to regard the eventual "liberation" of the offshore islands, the Pescadores, and Taiwan as a basic national objective essential to its security, characterizing the issue as an internal affair in which foreign interference will not be tolerated. Hence, this issue will continue to present the greatest danger of large-scale warfare in Asia.

It is estimated that as long as the US remains firmly committed to defend Taiwan and the Penghus, the Chinese Communists will almost certainly not attempt to invade through at least 1955. Short of invading Taiwan, the Communists will almost certainly concentrate on an interim policy of subversion and other means of softening up Taiwan for ultimate takeover. An intensive propaganda campaign designed to induce defection by offering amnesty to all save Chiang Kai-shek has already begun.

Available Chinese Communist strength in place is such that the Chinese Communists have the present capability — at the risk of heavy casualties — to seize the Quemoy and Matsus groups if defended solely by the Chinese Nationalist forces. The Chinese Communists will probably undertake air, naval, and artillery attacks against Quemoy and the Matsus and attempt to seize poorly defended island outposts within the area. They will also seek to erode Nationalist ability and determination to hold these islands, and to probe US intentions. Should they become convinced the US was determined to prevent the seizure of an island, they would probably be deterred from attempting such a seizure in the near future.

It may not be possible for the Chinese Communists, as a result of their probing actions alone, to ascertain the full extent of a possible US counteraction to an attempt at seizure of an offshore island. If the US did not respond to initial probing actions, the Chinese Communists might estimate that the US would not in fact commit its own forces to the defense of the island. Or, even though there was some US military reaction to a probing attack, the Chinese Communists might still estimate that US counteraction to an actual invasion of offshore islands would remain limited and localized. Or, the Chinese Communists might estimate that they could overrun an offshore island before effective US counteraction could be brought to bear and that the US would not subsequently initiate major hostilities in order to regain the captured territory.

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In any of these circumstances, we believe the Chinese Communists would probably attempt to seize or complete the seizure of the offshore islands.**

It is estimated that the Vietminh now feels that it can achieve control over all Vietnam without initiating large-scale warfare. Accordingly, it is estimated that the Communists will exert every effort to attain power in South Vietnam through means short of war. Should South Vietnam appear to be gaining in strength or should elections be postponed over Communist objections, the Communists probably would step up their subversive and guerrilla activities in the South and if necessary would infiltrate additional armed forces in an effort to gain control over the area. However, it is estimated that they would be unlikely openly to invade South Vietnam, at least prior to July 1956, the date set for national elections.

Elsewhere in Asia (the Nationalist-held offshore islands and South Vietnam excepted as per the above paragraphs), the Communists will probably not, during the period of this estimate, initiate new local military actions with identifiable Soviet, Chinese Communist, North Korean, or Viet Minh forces.

The Asian non-Communist countries are dangerously vulnerable to the expansion of Communist power and influence because of their military weaknesses and consequent fear of antagonizing Communist China, their political immaturity and instability, the social and economic problems they face, and the prevalence of anti-Western nationalism. The effect of the Geneva Conference and subsequent events has been to increase this vulnerability. Accordingly, the Communist leaders almost certainly estimate that they have a wide area of maneuver open to them in Asia in which they can safely continue efforts at subversion and support of armed insurrection without incurring unacceptable US counteraction.

Communist policy during the period of this estimate will probably seek to continue a stabilized situation in Korea. It is estimated that the chief features of this policy will be: (a) to refrain from renewing hostilities in Korea, but to be militarily prepared for a resumption of hostilities; (b) to refuse to accept any settlement in Korea which either endangers continued Communist control of North Korea or precludes hope of eventual Communist control of all Korea; (c) to rehabilitate North Korea and to strengthen its military and economic power; and (d) to attempt to weaken the ROK by infiltration and subversion.

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^{*} The preceding paragraphs on Taiwan and the offshore islands were drawn from NIE 100-1:-55, "Communist Capabilities and Intentions with Respect to the Offshore Islands and Taiwan through 1955, and Communist Reactions with Respect to the Defense of Taiwan," 16 March 1955.

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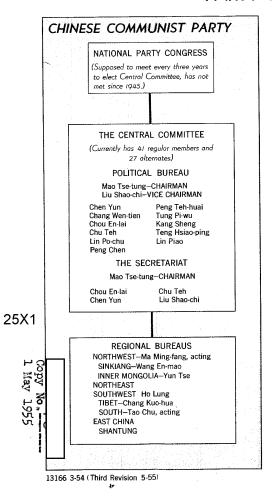
Japan and India will become increasingly important targets for Communist "coexistence" policies and propaganda. It is estimated that the Communists will continue their efforts to undermine Japan's stability and present orientation and will seek an expansion of economic and cultural relations. They will make greater effort to create the impression that their terms for a resumption of diplomatic relations with Japan are flexible, and may offer to conclude a formal peace settlement during the period of this estimate. It is estimated that the Communists will focus increasing attention on India in an effort to insure at least its continued neutralism, and if possible to bring it closer to the Communist Bloc. However, even at the expense of friction with India, Communist China will seek to increase its influence in the Indo-Tibetan border area.

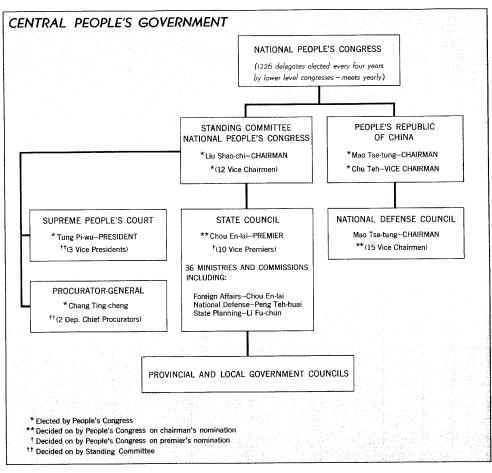
Communist influence in Indonesia has grown considerably since the present government took office in July 1953, and as a result of recent political developments the government is increasingly dependent upon Communist parliamentary support for its continued existence. It is estimated that the Indonesian Communists will probably continue to support the present government or, if it falls, to work for the establishment of another government in which they would participate or in which their influence would be strong. They will try, through both constitutional and illegal means, to expand their influence in the bureaucracy and the armed forces, and to prevent the formation of a unified and effective opposition. They will probably also attempt to strengthen their capabilities by the organization of a Party-controlled armed force. In general, however, they will probably avoid highly aggressive tactics in the near future, lest these provoke counteraction by the military or by domestic opposition groups before their own strength has become great enough to deal with it.

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COMMUNIST CHINA PARTY AND GOVERNMENT ORGANIZATION

Figure 11-B1





FAR EAST

C.	KOREA

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North Korea

Political

The political situation in North Korea remains stable. The Soviet Union continues its dominant role in North Korean political affairs, although Chinese Communist influence appears to have increased during the Korean war, Pyongyang readily accepts Peiping's aid, and the first Chinese Communist Ambassader since 1950 has recently presented his credentials at Pyongyang. There is no reliable evidence of friction over North Korea.

North Korean proposals on unification continue to demonstrate that the Communists would agree to a settlement only on terms insuring their control of all Korea. Continuing to woo South Korea with the line that the 38th parallel is an "unnatural, man-made obstacle" which can be eliminated easily, North Korea has offered to supply the south with electric power, ferrous metals, coal, and machinery if Seoul would accept a plan for fostering economic intercourse between the two nations "without delay." Recent propaganda beamed to South Korea has urged the withdrawal of all foreign forces from Korea and has stressed the need for the "Koreans themselves" to seek unification.

Economic

With Sine-Soviet Bloc technical and material aid, North Korea is beginning to show some progress in rehabilitation. The regime, however, is plagued by labor and material shortages, and most major industries remain inoperable. The goals of the current Three-Year Plan call for a 50 percent increase over 1949 in total industrial production, an approximate doubling of 1949 consumer goods output, and a 20 percent increase in agricultural production.

The quota for industrial production was reportedly fulfilled 100 percent for the first half of 1954, but it is unlikely that the 1956 goal can be attained. The doubling of consumer goods output, however, does seem possible.

Military

Since Jamary 1954 there has been a discernible trend toward increasingly greater defense responsibilities for the North Korean Army.

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Since the Armistice, North Korean strength has increased from 281,000 to 332,000; concurrently, Chinese strength in Korea has been reduced from 872,000 to 559,000 as of February 1955. The withdrawal of an additional 73,000 Chinese Communist troops from Korea during the period 19 February-4 March has also been reported.

The North Korean Air Force, the bulk of which has been moved from Manchuria to North Korea despite the truce terms, comprises an estimated 340 aircraft, including 170 jet fighters and 40 jet bombers.

The Communists in Korea retain the capability to attack with little warning, but their current dispositions and attitude do not indicate an intention to resume hostilities.

Estimate of Probable Developments*

General Communist policy with respect to Korea will probably bes
(a) to refrain from renewing hostilities in Korea, but to be militarily prepared for a resumption of hostilities; (b) to refuse to accept any settlement in Korea which either endangers continued Communist control of North Korea or precludes hope of eventual Communist control of all Korea; (c) to rehabilitate North Korea and to strengthen its military and economic power; and (d) to attempt to weaken the ROK by infiltration and subversion.

South Korea

Political

President Rhee's primary aim remains the unification of Korea, which he believes can only be achieved by a renewal of hostilities. He is motivated by a genuine concern over what he considers to be a weakened Western military position in Asia, by the continued Communist threat in Korea, by fears that the US is abandoning South Korea, and by a belief that American assistance to Japan constitutes a threat to his country. He also has a deep-seated conviction that "pro-Japanese" American officialdom is not sympathetic to South Korea. In keeping with these views, Rhee has criticized American strategic concepts in Asia including the withdrawal of American troops, has renewed his agitation for ending UN control and inspection of the South Korean armed forces, and has demanded a larger military establishment.

^{*} This paragraph is taken from NIE 10-7-54, "Communist Courses of Action in Asia through 1957," 23 November 1954.

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The ROK has extended considerable encouragement and sympathy to Nationalist China, but has signed no military pact with it. However, should the US become involved in hostilities over the Taiwan issue, Rhee would probably hope to initiate military action in Korea or at least precipitate incidents along the demilitarized zone.

Relations with Japan remain unsatisfactory. Although the resumption of ROK-Japanese negotiations for the normalization of relations between the two countries appears likely, little progress is expected as long as Thee's bitter and vocal distaste for Japan prevails.

Seoul has adamantly resisted North Korean blandishments for unification talks and cultural and economic intercourse, and has continued to assert that it is still at war with North Korea. However, there are indications that the general population in South Korea is receptive to proposals for liberalized contacts with the North and pleased by the prospects of continued peace.

Political instability has increased since the passage of Rhee's constitutional amendments which provide: (1) a means whereby Rhee can run for a third term; (2) reorganization of the executive branch to assure supremacy over the legislature; and (3) a more stable succession in case of Rhee's death or incapacitation. These amendments were bitterly opposed, and the legality of legislative approval is disputed by the political opposition. Subsequently, there have been some defections from Rhee's Liberal Party, which is wracked by internal dissension. In addition, anti-Rhee leaders have tried to create a unified opposition party. To counteract these difficulties Rhee has ordered a rejuvenation of the Liberal Party and has checked a number of political aspirants for governmental control.

Rhee's health is relatively good considering his advanced age and recent surgery. However the very real possibility of his death or incapacitation for office has kept Korean politics in a state of constant unrest in anticipation of the expected power struggle. In any event, the military are certain to play a major part in the selection of any successor.

Economic

South Korea's economy continues to be dependent on foreign aid, amounting to about \$330,000,000 in FY 1954. US aid

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administrators are constantly harassed

by ROK demands for: greater control

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over the use of aid funds; impractical industrial expansion; the exclusion of Japan as a supplier of aid goods; and the retention of an unrealistic exchange rate.

The economy is characterized by large-scale unemployment, inflation, and shortages of raw materials, equipment, and technical skills. So long as budgetary deficits remain and defense expenditures exceed 65 percent of total outlays, inflation seems inevitable.

Military

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The present 20-division army is now at full strength and holds more than two-thirds of the front line. The VI Corps which was activated on 15 May is now operational, bringing the number of such units to five. A new "rear-area command" is being organized and reportedly will soon be designated as the 2nd Army. South Korean ground combat forces now total 384,595; the air force comprises 118 conventional aircraft.

Estimate of Probable Developments

Future developments in South Korea depend for the most part on the policies of the US and of President Rhee. As for the latter, so long as he remains in power it is almost certain that conditions will remain unfavorable for the development of clear US-ROK understandings, for the effective utilization of US economic assistance, or for a significant improvement in ROK-Japanese relations. It is unlikely that Thee will go so far as to launch an attack against North Korea, but the possibility of Rhee's attempting to involve the US in renewed hostilities in Korea cannot be dismissed.

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FAR EAST

D. JAPAN*

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General

Since the war, Japan has been unable to develop a sense of national purpose, and as a result, its leaders and people have tended to drift aimlessly without agreement on objectives and without resolution to settle the nation's pressing problems. Although a majority of the Japanese probably support the principle of cooperation with the US and the Free World, their attitudes reflect confusion arising from defeat in war and disruption of national values, uncertainty over Japan's international role, distrust of foreigners, suspicion of US reliability and motives, and susceptibility to leftist propaganda. Many important groups in Japan have neutralist and leftist thought patterns, partly as a continuing reaction to Japan's undemocratic and militarist past.

Japan has developed only a weak sense of partnership with the US and of common interest with the democratic nations. Many Japanese look upon US actions and motives as entirely selfish, with little regard for the interest of Japan. The view is strong in Japan that the US considers Japan indispensable to its security, and therefore Japan can get what it wants from the US.

Political

Moderate conservative forces are dominant in Japan, and have consistently secured about 2/3's of the vote in recent national elections. However, they are split, and efforts to achieve unity over the past three years have failed. The result has been ineffective government.

There has been some revival of ultra-rightist views although they have little representation in the Diet.

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This section is largely an extract from "Japan's Situation," an appendix dated 14 March 1955 to a draft NSC paper entitled "US Policy Toward Japan," constitutes the Conclusions of NIE 41-54, "Probable Developments in Japan through 1957," 10 August 1954. A new NIE on Japan is scheduled for completion in the third quarter of 1955.

Left-of-center groups are strong in Japan but, like the conservatives, they are split by marked differences over policy and personality but have cooperated closely in efforts to weaken the conservatives.

Communists are weak politically in Japan and are unlikely to attain significant parliamentary strength. The Communists are influential, however, through their infiltration of the bureaucracy, the leftist parties, educational institutions, labor unions, and information media. The Communist Party also retains a large potential for sabotage, last demonstrated in the May Day riot in 1952.

There has been an inevitable reaction of all political groups against the Occupation reforms and against US guidance. Among the conservatives this takes the form of a drive for revision of the Occupation-sponsored constitution to increase the power of the central government and make for a more highly disciplined populace. The Socialists oppose these changes and with their control of one-third of the seats in the Lower House of the Diet, they block constitutional amendment.

Economic

Japan has perhaps the poorest economy of all major powers, with the fewest natural resources, the most critical import requirements, and the heaviest pressure of population on productive land.

Japan's basic economic problem is that of providing employment and adequate living standards for its growing population through expansion of foreign trade and development of its limited domestic resources. Japan has had a large international trade deficit throughout the postwar period which has been offset by roughly \$5 billion of US economic aid and military expenditures. Although considerable success resulted from the government's deflationary and austerity policies inaugurated in late 1953, the long-term economic outlook is adverse.

Pressures in Japan for higher levels of trade with Communist countries, particularly Communist China, are increasing and the Hatoyama government can be expected to make a determined effort to have trade controls relaxed vis-a-vis Communist China probably by the elimination of the differential between the COCOM and CHINCOM lists.

The government's ability and willingness to hold the line at this point will, in part, be determined by Japan's ability to solve its economic problem within the Free World. This, in turn, depends to a large extent on the success of Free World efforts to raise levels of economic activity in the underdeveloped countries of Asia and to promote Japanese exports through the relaxation of tariff and other trade barriers. Even if Japan undertakes substantial trade with China, its economic ties and dependence on the free nations will remain comparatively much stronger.

The government's willingness and ability to develop its defense capabilities will also depend largely on the solution of its economic problem.

Defense

For a number of reasons Japan is unwilling to move rapidly on the problems of rearming. It is not convinced that it is in serious danger of attack or that its national interests are at stake in the present crisis. It desperately fears involvement in war and is inclined to think that its danger of involvement is less if its forces are small. It claims it cannot afford to build a large force. It fears revival of a military clique, and there remains much anti-war feeling among women and youth.

Moreover, the Japanese government, partly at US urging, is committed to a deflationary program which required the curtailment of governmental expenditures and the maintenance of a one trillion yen budget ceiling.

The unwillingness to move rapidly on defense has made Japan's defense relations with the US a major issue in Japan's domestic politics. Most Japanese feel that the US has pushed too hard on rearmament and expects Japan to put more money into defense than Japan can afford.

Foreign Affairs

Japan has established diplomatic relations with most of free Asia, but the spirit of reciprocal interest and cooperation is weak. Nationalist China almost alone of the free nations of Asia wants to cooperate with and enlist the support of Japan, while Japan, although aware of the present value of its trade with Formosa, feels there is little future to Nationalist China and it must not get more involved.

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Japan is taking steps to improve relations with the Soviet Union and Communist China. It desires to eliminate frictions with these powerful neighbors and to increase trade and cultural contacts with them with a view to establishing full diplomatic relations. It believes that it can develop good relations with the Communist nations without harming its close cooperation with the US and the free nations and that it is in its national interest to be able to bargain more freely with both sides.

Estimate of Probable Developments

Through 1957, Japan will not be in a position to play a leading or stabilizing role in Asian affairs. Assuming a continuation of US assistance, however, it is likely that Japan will slowly gain in strength.

Japan will almost certainly continue to be economically and militarily dependent on the US. It will therefore continue to avoid any action that might seriously jeopardize its alignment with the US, in spite of numerous frictions arising out of its condition of dependence.

Within these limitations, Japan will attempt to pursue a more independent foreign policy, notably in terms of establishing more active and extensive economic and political relations with Communist China and the USSR. There will probably be some growth in neutralist sentiment, an increasing spirit of nationalism, and a continuing critical appraisal of US policy.

Moderate conservative elements will probably continue to dominate Japanese government and politics, although factional rivalry among the conservative elements will probably hamper governmental effectiveness. Although factionalism will limit socialist influence, the two groups will probably retain sufficient strength to act as a break on the government's increased conservatism.

Although the Japanese Communist Party is not likely to gain substantial parliamentary strength, it will continue to exercise an important influence through its ability to aggravate popular grievances and to exploit and infiltrate mass organizations of the non-Communist left. The Communists will probably be able to maintain their underground organization but not to increase significantly their potentialities for sabotage and subversion.

Assuming US military assistance, the Japanese Government will continue to rearm gradually. By 1957, it is probable that Japan will have military forces capable of making a substantial contribution to its defense, but by no means adequate to assume full responsibility therefor. Japan will be reluctant to accept military commitments beyond the immediate defense of Japanese territory and will hesitate to join any regional defense system.

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FAR EAST

E.	Taiwan [#]

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Political

The National Government of the Republic of China is an anomaly. It exists only because of US support. The National Government continues to be acknowledged by a majority of the states of the world as the legal government of China, yet it controls only a few islands, and its international position is being eroded by the growing power of Communist China. Nationalist China is an armed camp, maintaining a disproportionately large military establishment and focusing its resources and its purpose on a future invasion of the continent. Yet its economy is incapable of supporting this military establishment, and its armed forces are not capable by themselves of undertaking the desired invasion or even successfully defending the territories they now hold. There is no immediate prospect that its hope for an early return to the mainland will materialize; meanwhile its armed forces grow older. The regime has enjoyed US support and on 2 December 1954 signed a Mutual Defense Treaty with the US. However, the US has not to date underwritten Nationalist aspirations to return to the mainland, and in recent public utterances has indicated an unwillingness to do so. It is staunchly anti-Communist, yet it is an important source of dissension in the non-Communist world.

The National Government is superimposed upon a native Taiwanese population from which its interests often diverge and which outnumbers the mainlanders 8 million to 2 million. The National Government claims to speak for the Chinese people everywhere, yet its leadership and political programs have not attracted significant support from among mainland or overseas Chinese, and the Taiwanese, themselves of Chinese descent, have no effective voice in the determination of national policies.

Nationalist China is in essence a one-party state; authority is centralized in the hands of a few, and ultimate political power resides in the hands of the leader of the Kuomintang Party and head of the government, Chiang Kai-shek. The Generalissimo dominates the political scene not so much through direct fiat as through indirection and the skillful balancing of personalities and cliques within the government. His traditional and skillful practice of divide-and-rule is probably responsible in large measure for Taiwan's present degree of political stability. At the same time Chiang's methods are largely responsible for such continuing Nationalist shortcomings as the retention of incompetents in high positions, a general failure to delegate authority to subordinate political and military officials, and factionalism within the ruling circles.

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^{*} This section is largely a summary of NIE 43-54, "Probable Developments in Taiwan Through Mid-1956," 14 September 1954.

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The struggle among traditional mainland factions for political influence has persisted, but political rivalry centers at present chiefly around Vice President Chien Chieng and the Generalissimo's Moscow-educated elder son, Chiang Ching-kuo. The power of these two figures is believed to be approximately equal at the present time.

Antipathy is not strong at present between the native Taiwanese and the Chinese mainlanders on Taiwan. In short, the native islanders tolerate the National Government, and wish it every success in its efforts to return to the mainland.

On the surface the general state of Chinese Nationalist morale remains fairly good; despite recent events, it is not appreciably different from what it has been for some time. Communist subversive activity on the island is not of major proportions, and apparently is being effectively suppressed. Nevertheless, the Nationalist regime has undergone many frustrations and disappointments during its six years on Taiwan, and adverse psychological forces are almost certainly at work beneath the surface of Nationalist society.

Economic

Owing to wartime and postwar dislocations, Taiwan no longer has a viable economy. Since 1945, economic development of the island has been largely neglected because of the National Government's preoccupation with political and military affairs.

Taiwan's economy is basically agrarian, with nearly 60 percent of the population engaged in agriculture, while only about 5 percent are engaged in industry. The prospects for agricultural expansion are limited. Undeveloped resources outside of agriculture are also limited. Known mineral resources are meager, although coal production meets the island's current needs and could be expanded to support a growth in industry. Formosa could also greatly expand its hydroelectric facilities. The development of any of these resources, however, would require heavy initial investments.

The National Government has not seriously attacked its long-term economic problems, partly because of its preoccupation with immediate problems and partly because of its unwillingness to accept the prospect of a long exile on Taiwan. Government enterprises, which account for two-thirds of all activity in industry, mining, and transport operate inefficiently, and, in many instances, at a loss. Domestic private investors have received no real encouragement, while foreign private investment has been limited by legal provisions. Other Nationalist policies have tended to decrease production, discourage investment in agriculture, reduce farm marketing, and hamper exports.

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In spite of these shortcomings, the economic situation, with US assistance,* has substantially improved, as compared with the chaos of 1949. Between 1949 and 1953 industrial output increased from 74 percent to 140 percent of the 1941 level, while agricultural output rose from less than 80 percent to 93 percent of the 1935-1939 level. Effective budgetary controls have halted the growth in government expenditures, although government receipts exclusive of US aid did not rise in real terms between 1950 and 1953. Also inflationary pressures have been eased. However, a balance of trade deficit persists; in 1953 it amounted to \$69 million.

Military

The present strength of the ground forces is 422,000, of which about 285,000 are effective combat troops organized into 24 infantry and 2 armored divisions.

The army's effectiveness is impaired by a failure of the highest command echelons to delegate authority and by a political officer system which interferes with command functions. However, a recent reorganization integrated logistical support into the field army structure. This move promises more effective control of supply and resupply and consequently should better provide effective support to fighting units. Progress is also being achieved in raising the level of combat efficiency of the Nationalist Army. Leadership at the lower levels is improving steadily. Training has also improved. Troop morale is considered satisfactory. Based on status of personnel, equipment, training, and quality of leadership, MAAG rates infantry units at approximately 50 percent combat effective.

The navy includes two destroyers, five destroyer escorts, and a number of smaller craft.

The air force, with 410 combat aircraft (including 117 jet fighters) is probably superior to the other services in equipment, morale, and leadership. However, it is far weaker than the Chinese Communist Air Force.

* Deliveries of US aid goods in 1953, exclusive of military supplies, totalled US \$83 million, amounting to 38 percent of Taiwan's receipts of goods and services from abroad, and, if converted at the average black market foreign exchange rate, equalling 62 percent of the net revenues of all levels of government. US economic aid funds, exclusive of MDAP costs disbursed on behalf of the National Government between July 1950 and August 1954, totalled approximately US \$300 million.

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Estimate of Probable Developments

The future fortunes of the National Government will be determined to a very large extent by US policy, and will depend increasingly upon the scale and character of US aid and support.

Should US aid continue at approximately present levels, the prospects of the National Government for maintaining domestic stability between now and mid-1956 appear good. Communist influence and subversion will probably continue to be vigorously suppressed, although sporadic cases of Communist infiltration and of defections may occur, particularly as time passes and there is growing disillusionment over prospects of a return to the mainland. Nationalist leadership will probably not succeed in creating any new and dynamic political program.

Although there will be some improvements, the fundamental economic weaknesses of Taiwan will probably become more acute by mid-1956. Because of a rising population and a leveling off of current expansion of industrial and agricultural production, Nationalist China by mid-1956 will probably be more dependent than at present upon US economic aid for its continued existence.

A return to the mainland will continue to be the central objective of the National Government and the focus of its foreign and domestic policies. The National Government will continue to believe that US support for such a return will not be likely unless and until other circumstances impel the US to engage Communist China or the Communist bloc in a major war. Nationalist leadership will almost certainly not become reconciled to an insular future, nor will it commentrate principally on the development of Taiwan. In this connection the islands of Quemoy and Matsu have recently assumed such importance in the eyes of the Nationalists that their loss would be a severe blow to morale, irrespective of the circumstances or conditions under which the loss occurred. In any event, however, we believe that the blow would not be so great as to cause the Nationalists immediately to fold up. We believe that they would continue their resistance to Communist pressures, at least for a time. The subsequent behavior of the Nationalists would depend in large measure on specific US actions with respect to Taiwan, and on US reactions to aubsequent Communist moves.

The Chinese Nationalist armed forces remain an important source of non-Communist military strength in the Far East. During the next two years their combat capabilities will appreciably improve. However, they will remain greatly outweighed by those of Soviet-aided Communist China. Outside logistic, air, and naval support will continue to be required to defend Taiwan or the Pescadores against full-scale Communist invasion.

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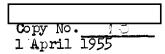
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Nationalist China's international position will continue greadually to deteriorate. A few foreign states will probably recognize the Chinese Communist regime during the next two years, and Nationalist China's right to membership in international bodies, including the UN, will come under increasingly serious challenge. In the face of a deteriorating international position and unimproved prospects for return to the mainland, the National Government's task of maintaining its own morale and that of its armed forces and the former mainlanders on Taiwan will become increasingly difficult.

Twelve million overseas Chinese are one of the few sources from which the Chinese Nationalists might draw additional support. However, little significantly increased support from among the overseas Chinese will be forthcoming, largely because of the probable relative power of Communist China and Nationalist China.

If, beyond the next two years, the adverse trends described above are not reversed, the strength and international position of the Republic of China will probably deteriorate, even assuming a continuation of US support at approximately present levels.

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FAR EAST

Mainland Southeast Asia

INDOCHINA*

VIETNAM

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Political

The recent success of Premier Diem in military operations against the Binh Xuyen, and in his stand against Bao Dai and the French, has created a new and potentially revolutionary situation in South Vietnam. While the situation remains extremely fluid, Diem appears to hold the initiative, and the interested parties -- particularly the French and Bao Dai -- will have to adapt themselves to a radically new situation dominated by Diem or by more extreme nationalist elements. If they do not adapt and if there are any substantial efforts by Bao Dai or the French to frustrate Diem's government, the chances of anti-French violence and the dissolution of the imperial institution would be greatly increased.

Prior to the recent clashes between Diem's forces and the Binh Xuyen, little progress towards establishing a strong, effective anti-Communist government had been made in South Vietnam since the conclusion of the armistice. Despite his considerable nationalist following, Diem had been unable to attract much support from the small political elite of the country, primarily because of his inability or unwillingness to delegate authority. Diem placed his trust in members of his family and resisted suggestions that he broaden his government's popular base. Diem, as the leading lay Catholic in Vietnam, has the support of most Catholics, but this fact has generated suspicion among non-Catholic Vietnamese and religious sect leaders who have accused Diem of promoting a private Catholic army. However, none of the groups opposing Diem has any broad-based popular support. Diem's popular reputation for integrity and his nationalist zeal have been his most important assets, and the virtual expulsion of the Binh Xuyen from Saigon-Cholon has increased Diem's prestige throughout Vietnam. The confidence of Diem and his supporters in their own strength, judgment, and popular appeal has been considerably enhanced.

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^{*} This section is based largely on NIE 63.1-2-55, "Possible Developments in South Vietnam," 26 April 1955, and SNIE 63.1-2/1-55, "The Current Saigon Crisis," 2 May 1955. This report will be revised following the publication of NIE 63.1/63.2/63.3-55, "Probable Developments in North Vietnam, Cambodia, and Laos through July 1956," scheduled for publication in June.

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In contrast to the fluid situation in South Vietnam, the Vietminh is energetically consolidating its control over North Vietnam, is greatly increasing its armed strength by various measures including the evasion of armistice terms, and is continuing, though not without difficulty, to develop networks of agents and political cadres in South Vietnam, Laos, and Cambodia. The harshness of Vietminh repressive measures and the present economic difficulties of the regime, coupled with the flight of refugees to the South, would seem to presage an unfavorable popular reaction to the regime.

Military

The Vietnamese National Army is now being reduced from its former strength of 170,000 regulars and 10,000 auxiliaries in conformity with US recommendations for a 100,000 man force. The French Expeditionary Corps has a strength of approximately 150,000 regulars and 22,000 auxiliaries, plus relatively small air and naval contingents. The French are reluctant to commit their forces in internal security operations. At the present time, the combined French and Vietnamese armed forces could only delay a full-scale Vietminh invasion; they could not stop it without reinforcements from outside.

The Viet Minh is consolidating and reorganizing its armed forces by grouping formerly independent regular and regional units to form new divisions with augmented firepower. During the next 12 months the Vietminh will probably have at least 11 or 12 infantry divisions, two artillery divisions, and one anti-aircraft division. These developments would more than double the pre-Geneva combat effectiveness and capabilities of the Viet Minh regular army. The Viet Minh is expanding and improving its transportation and communication facilities, including rail and highway links with South China.

Estimate of Probable Developments

As a result of his recent successes, Premier Diem will almost certainly resist any efforts to remove him from office. His actions and those of his followers have taken an increasingly nationalistic, anti-French tone and Diem may now be convinced that a continuation of this anti-French policy is essential to the rallying of popular support. Nevertheless, he has exercised a moderating influence on the more radical elements around him. If Diem is thwarted in his objectives by the French or by Bao Dai, however, he will become more susceptible to pressures toward extreme action. Diem has rallied additional support during the current military phase, and

from this position of strength, Diem will almost certainly continue to gain adherents, including defections from among the Binh Kuyen and the sects.

Aside from the French Army, only the VNA presently has the capability to enforce Bao Dai's authority in Saigon or to back Diem in defiance of Bao Dai. There are some VNA officers who dislike Diem and who are concerned by the developing rift between Diem and Bao Dai. On the other hand, there is considerable pro-Diem nationalist sentiment in the Army; Diem has gained additional support as a result of clearing the Binh Xuyen from Saigon; and most importantly, the VNA units in the Saigon area appear to be loyal to Diem. As a result of Diem's stand against Bao Dai and because of the latter's involvement in what many Vietnamese nationalists consider to be a French inspired political maneuver, Bao Dai's prestige has been greatly reduced. There appears to be considerable sentiment for the deposal of Bao Dai, and if Diem gives his consent such action may be taken at any time. For the present, Bao Dai apparently feels that the tide is running with Diem, and is attempting to preserve the institution of the monarchy by accepting the continuation of the Diem government. The French will find it difficult to accept Diem's success which came despite their strong and well-publicized opposition, and will probably continue pressure for his removal. However, if the French believe that Diem will succeed in consolidating his position they may decide that they have no choice except to repair their position with Diem as best they can while making plans for accelerated withdrawal of their forces.*

The Viet Minh probably fear that Diem's continuation in office would limit the prospects of a peaceful unification of Vietnam under terms favorable to the Communists. They will probably continue covert efforts in South Vietnam to keep the situation agitated. The Communists almost certainly will not invade South Vietnam in the near future.

Assuming that the US continues to support Diem, and that the French acquiesce, we believe the situation will stabilize in Saigon under Diem's control. However, Diem's talents as an administrator are unlikely to improve. His success achieved largely on his own initiative and with his own resources is likely to make him more independent and less amenable to policy guidance. Diem's government will still be confronted with manifold internal problems - e.g., integration of the sects, resettlement of refugees, land reform, extension of government authority in the provinces, training of the army. Although Diem has improved his position, we believe that it will still be extremely difficult, at best, for Diem or any Vietnamese government to build sufficient strength to meet the long-range challenge of the Communists.

^{*} The Special Assistant, Intelligence, Department of State, believes that the last sentence of this paragraph understates the difficulty the French would have in accommodating to a strong, anti-French government in South Vietnam, and therefore believes the sentence should read: "If these efforts are unsuccessful and Diem appeared to be consolidating his position, the French in the end may decide that they have no choice except to step up the withdrawal of their forces from Vietnam."

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LAOS

Present Situation

Laos lacks effective political leadership, and the population is in large measure politically apathetic. At present the government is a reasonably stable coalition of leading non-Communist political personalities with the pro-US Crown Prince Savang maintaining a balance of power.

Laos is principally threatened at present by the Communist-dominated Pathet Lao movement which occupies and controls the two northern provinces of Phong Saly and Sam Neua and has an army which numbers about 6,000 men.

Negotiations designed to bring the Pathet Lao into the Royal Government have resulted in a cease-fire in Sam Neua and Phong Saly provinces and the establishment of a mixed committee to renew further discussions. This cease-fire, which tends to solidify the Pathet Lao position in the two provinces, was brought about largely by Premier Katay who tends to regard the Pathet as "wayward brothers who can be brought back into the fold," rather than as Communists supported and controlled by the Vietminh.

The Laotian armed forces have a current strength of 27,000 and are augmented by a French Military Mission and by 3,500 French combat troops. The Laotian Army has not displayed a real will to fight and is incapable of defending Laos against any Vietminh invasion. It is unlikely that the Laotian Army can now without all-out French support exercise effective control in the two northern provinces in which the Pathet Lao are concentrated, or that it can prevent Communist activities on the local level elsewhere in Laos.

Estimate of Probable Developments

Pathet Lao followers of the Victminh will probably continue to exercise considerable control in the provinces of Phong Saly and Sam Neua. Moreover, the Communists will have the capability by political and subversive means to heighten their influence in Laos and to weaken the anti-Communist government. However, the nature of Communist aggressive action against Laos will be moderated by the Communist desire to continue their "peaceful coexistence" line in Asia, particularly directed toward Indian reactions, and to a lesser degree by the possibility of US counteraction. Under these conditions, and providing that the Lao Government obtains and effectively utilizes outside assistance, we believe that it can limit Communist political advances.

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However, if during the period of this estimate, South Vietnam should fall to the Vietminh, Communist capabilities for pressure against Laos would be substantially increased, and Laotian will and capability to resist these pressures would be correspondingly lessened. The extent to which the Communists choose to exploit this situation would depend almost entirely on their estimate of the probable reactions of the Manila Pact power and of the neutral countries of South and Southeast Asia.

CAMBODIA

Present Situation

King Norodom, who had exercised supreme power since 1952 when the National Assembly ceased to function, officially abdicated on 2 March 1955 following criticism by the International Control Commission and some of the Geneva signatories of his anti-democracy program designed to preserve the monarchy as the primary instrument of government in Cambodia. Norodom's mother and father have assumed the throne, with the former exercising actual authority. Norodom continues to exercise many of his old functions in the government and has publicly announced his intention to take his program to the people and form a party in opposition to the national or "Democratic Party."

The Cambodian public, despite their affection for the ex-King, have remained largely apathetic to the abdication probably because the significance of the ex-King's emotional maneuver escapes the unsophisticated bulk of the population. However, Cambodians as a whole can be expected to remain loyal to the royal family, and Cambodia's stability will continue to depend primarily on the attitudes and reactions of the royal family as a whole, rather than in changing popular political tastes.

We believe that despite the evacuation of a number of Viet Minh troops a sizeable Viet Minh cadre remains in Cambodia. Moreover, the Cambodian Communist armed bands, although ending their guerrilla activities, have failed to demobilize or to turn over their arms.

The Cambodian armed forces total 32,000 and would be incapable of defending against a large scale Viet Minh invasion.

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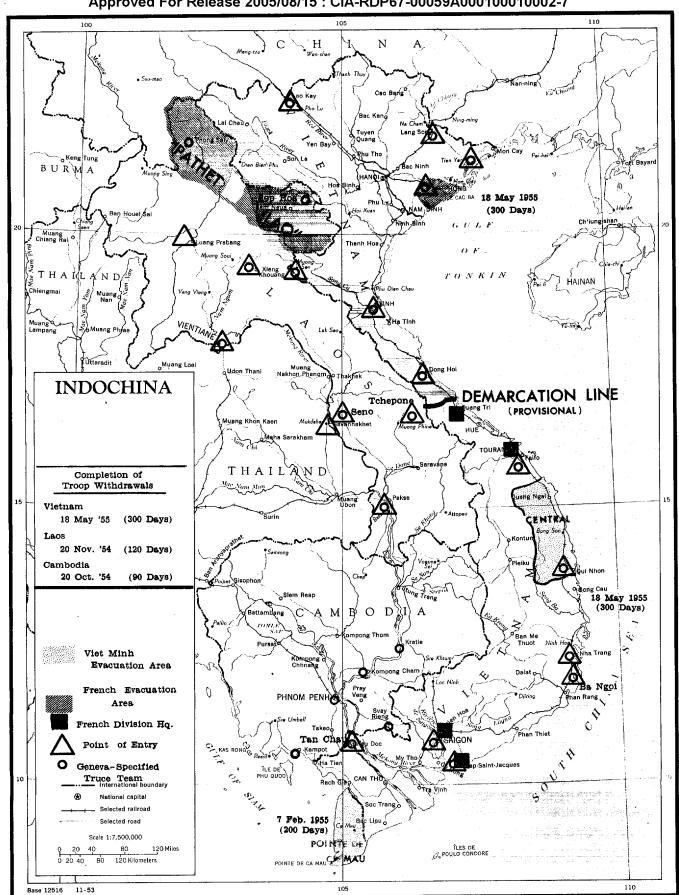
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Estimate of Probable Developments

We believe that for the next year or so, providing outside assistance and the assurance of western support are forthcoming, the Cambodians will maintain an anti-Communist policy and will be able to control internal subversion.

Future events in Cambodia will be considerably affected by developments in Vietnam and in Laos. A Communist takeover in South Vietnam would increase Communist capabilities against Cambodia and would impair Cambodian will to resist further Communist pressures, though we estimate that the Cambodians would be more resolute than would the Laotians under similar circumstances.

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FAR EAST

F-3.	BURMA

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Political

The government of Burma now displays more cohesion and efficiency than at any time since the granting of Burma's independence in 1948. The current government, established by national elections completed in January 1952, is controlled by a coalition, the Anti-Fascist People's Freedom League. This coalition is dominated by the Burma Socialist Party. The Burmese Socialists have displayed a sense of national purpose and an apparent willingness to subordinate personal ambitions to cooperative effort.

Although Burma has become increasingly aware of the Communist external threat to its sovereignty, it continues to maintain a neutral position in the East-West struggle. Premier Nu's recent visit with Chou En-lai in Peiping apparently reinforced his view that Communist China's intentions towards Burma would remain pacific so long as Burma continued neutral. Nu has recently tried to play a mediating role between China and the US, hoping to reduce the tension in the Taiwan straits and thus reduce the danger of war in the Far East which might involve Burma. At the same time the Burmese government has assumed a more friendly attitude toward the West, particularly since the removal of over 6,000 Chinese Nationalist irregular troops from northeast Burma, which was accomplished with US assistance. The Burmese government has also extended diplomatic recognition to Laos and Cambodia as a gesture demonstrating its desire to see those countries remain free from Communist control.

Economic

Rice production is the mainstay of the Burmese economy. With the advent of a buyer's market, Burma is experiencing difficulties in disposing of an unusually large exportable surplus. In an effort to find new markets, it has concluded a trade agreement with Communist China, and a Burmese mission is now in Moscow attempting to induce the USSR to take additional rice stocks.

Military

Armed rebellion by Communists and dissident ethnic minorities continues, although the Burmese armed forces are gradually restoring

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internal stability. Communist forces continue to be broken into smaller and smaller groups. The official establishment of a semi-autonomous Karen state government has weakened the Karen rebellion, and enough Chinese Nationalists have been removed so that the Burmese forces should be able to handle the remainder. The various insurgents, nevertheless, still exert political and military control over considerable areas. Current Burmese efforts to oust or capture the Chinese Nationalist irregulars remaining have so far met with little success, and this situation will probably continue to pose a security problem to the areas concerned.

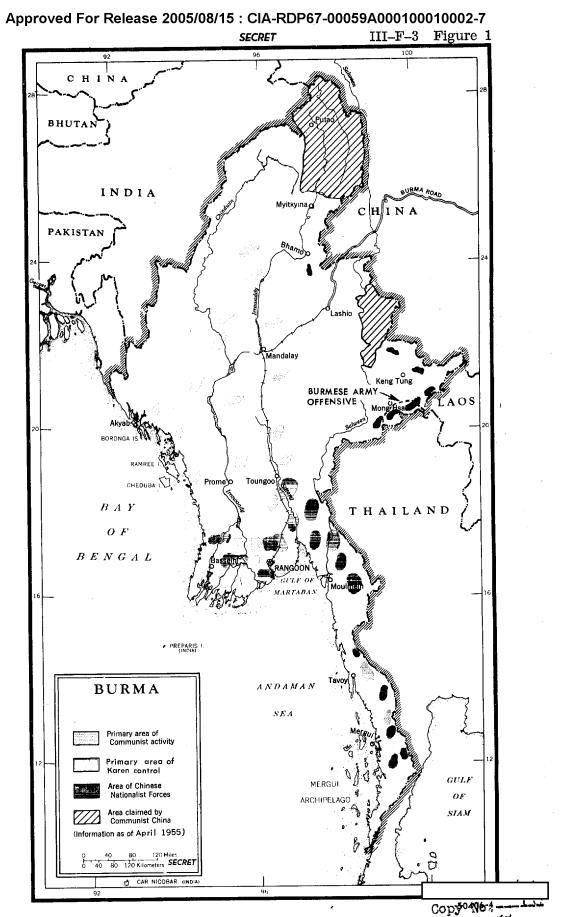
Although the Communists in Burma have been frustrated in their military effort to overthrow the Burmese government, and though their fortunes continue to decline, they still pose a serious problem. They have been pursuing a dual strategy of mounting guerrilla attacks on government posts and lines of communication and of offering to end their rebellion in return for participation in a coalition government. Moreover, while the Chinese Communists are not known to have provided significant aid directly to the Burmese Communists, they have become increasingly active in wooing the ethnic minorities of North Burma, much of which has been traditionally claimed by China.

Estimate of Probable Developments

The present degree of economic and political stability probably will continue. The Burmese government will almost certainly continue its efforts to suppress insurrection in Burma, although government forces probably will not achieve sufficient strength in the immediate future to enable them to extend and maintain control over much additional territory.

A Communist-led united front of all insurgent forces does not appear likely. Although there is little evidence that the Chinese Communists have assisted the Burmese Communists, the Chinese Communists have this capability. The Communists will probably continue to follow a dual policy in Burma, placing greater emphasis on political tactics than on violence. Over the longer run, however, the Chinese Communists may increase their efforts to train and equip dissident elements in Burma.

The Burmese government will probably continue its efforts to maintain "normal" relations with Communist China and to maintain neutrality in the East-West struggle. At the same time, Burma will probably continue to seek the assistance of the West in strengthening its armed forces and it will resist Communist efforts to draw Burma, by diplomatic means, into the Chinese Communist sphere of influence.



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Mainland Southeast Asia

F- <u>4</u>	Malaya

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Political and Military

In Malaya, the principal dollar earning area of the sterling bloc, the Communists have waged a campaign of guerrilla warfare and sabotage since 1948. Numbering approximately 6,000 armed men, the rebels have engaged 106,000 British-led troops and police. An indefinite continuation of the Communist campaign is expected. Although a marked decrease in guerrilla warfare and economic sabotage became apparent in mid-1952, this development may have resulted primarily from a change in Communist tactics rather than from government military successes. A slight increase in terrorist incidents occurred late last year. This development, which has since leveled off, has been explained by a Communist decision to expand the extent of "selective terrorism" permitted under the present tactic which emphasizes subversion and attempts to win popular support rather than military activity.

Both General Templer, who was relieved as high commissioner last June, and the present Director of Operations, General Bourne, believe the government is capable of further pressure upon the Communists. General Templer publicly stated before leaving that the end of the emergency was not in sight.

The British problem in preparing the Federation for self-government is complicated principally by the fact that racial, rather than national loyalties, constitute the strongest influences in the country. The population of the Federation is 50 percent Malay, 38 percent Chinese and 11 percent Indian. The principal political grouping at the moment is a superficial alliance between the Malay and Chinese organizations which is demanding rapid progress toward self-government. Many Malay and Indian leaders fear that a too rapid political advance would result in domination of the governmental structure by the Chinese who already control a disproportionate share of the economy.

Economic

Malaya's economic well-being is closely tied to world rubber and tin prices. Malayan output of these two products in 1953 totaled 3? and 32 percent respectively of world production. Falling world prices in the past two years have entailed wage cuts and have seriously reduced government revenues. The slump has hit the lower income groups most severely, making them more susceptible to Communist propaganda. There were government budgetary deficits in 1952 and 1953.

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F-5 <u>•</u>	THAILAND*

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Political

Thailand is relatively stable politically, with power closely held by a small ruling group of military and police leaders. Its three principal members are Field Marshal Phibun Songkhram, Prime Minister; General Sarit Thanarat, Commander-in-Chief of the Army; and General Phao Sriyanon, Police Director General. The ruling group exercises its political control through the organs of a constitutional monarchy. The monarchy is important as a symbol of national unity, although the King exercises little influence. The half-elected and half-appointed House of Representatives acts largely as a rubber stamp for the ruling group's legislation. The two major political factions, led by Sarit and Phao, are apparently engaged in continuous though quiet maneuvering for power. However, there are apparently no major policy differences within the ruling group, and there appears to be a general reluctance to risk loss of position by precipitating a struggle for sole control of the state.

The Thai Government is pro-US in its orientation. It has responded to the increased Communist threat in Southeast Asia by identifying itself more closely with the West and by taking some steps to improve relations with its immediate neighbors. Thai conviction of US willingness to defend Thailand, including the commitment of US forces if necessary, is the crucial element in Thailand's Western orientation and in its will to oppose further Communist advances. There is a certain degree of dissatisfaction with the Manila Pact because it does not contain a firm NATO-type commitment from the US.

Communism has not made a successful appeal to the Thai. Relatively good economic conditions, the absence of colonialism as an issue, general political apathy among the population, and the suppressive measures of the government have combined to limit membership in the illegal Thai Communist Party to an estimated 100 people. However, the Communists have had somewhat greater success among the three million Chinese in Thailand, and the 75,000 to 100,000 Vietnamese in northeastern Thailand. The illegal Chinese Communist Party in Thailand, operationally distinct from the Thai Party, has 2,000 - 5,000 members and possibly 100,000 sympathizers. The bulk of the Vietnamese communisty are Viet Minh sympathizers and have provided limited support for the Viet Minh in Indochina.

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[#] This section is a summary of NIE 62-54, "Probable Developments in Thailand," 7 December 1954.

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The capabilities of both Parties are limited at present, but the Chinese Communists control labor in such key industries as rice-milling and stevedoring, and thus have a potential for disrupting transportation and economic activity. In their search for a leader and for issues to increase instability in Thailand, the Communists appear to have reached an agreement with former Thai Prime Minister Pridi Phanamyang who recently broadcast an appeal over Peiping radio to the Thai people to join with him in overthrowing the "corrupt, US-dominated Thai Government." Pridi's support has diminished steadily since his exile following the 1947 coup and he does not appear to have any organized backing in Thailand at this time. However, he has many followers in northeastern Thailand and a potential following among some dissatisfied though unorganized elements in other areas.

Economic

Thailand has a basically stable and gradually expanding agricultural economy and is free from population pressure. Its principal current economic problems are: (a) disposing of a large surplus of low-grade rice; (b) checking the deterioration in its balance of payments position; and (c) financing increasingly heavy budgets to support government investment and armed forces expansion. All three problems are closely linked since rice exports normally provide 70 percent of foreign exchange receipts and are the main source of government revenue. Thailand has requested that the US supply \$36,841,000 for budgetary aid during 1955, or about 12 percent of the total planned Thai budget.

The northeast is an economically depressed area, though dissatisfaction with low living standards has not been sufficient to cause serious unrest. Both the Thai government and the US, through its aid funds, have given increased attention to the area through health, education and agricultural improvement programs which appear to have been effective.

Military

The Royal Thai Army of about 80,000 could do little more than briefly delay any Communist invasion force. Its preliminary expansion program, the major portion of which has been approved by the US and which is now being carried out, contemplates an increase to 106,000 men. This plan, if fully implemented, would result in some increase in effectiveness and in improved unit mobility. The Royal Air Force has a total personnel of approximately 13,500 and a total aircraft strength of about 340 including about 110 F8F's. It lacks jets and radar equipment and has a negligible capability for defending Thailand from air attack. The Royal Thai Navy has approximately 16,000 of ficers and men, and a miscellaneous collection of vessels acquired from Japanese, Italian, British and US sources. Although the Navy's over-all capabilities and effectiveness are limited, they are now increasing, owing to the influence

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of US training and advice, and US supply of badly needed equipment.

The great majority of Thai service personnel are apparently loyal and patriotic. Officer morale and the development of a competent professional officer corps have suffered from the involvement of the armed forces in politics. Despite the efforts of US military advisors, modernization of the Thai forces has proceeded slowly, and the Thai still lack officers and specialists necessary to carry on an extensive training program of their own.

The National Police Force, with a strength of about 40,000 is a quasi-military force responsible for internal security, border control, and the collection of intelligence. It is probably capable at present of maintaining internal security, but probably could not cope with an increase in externally directed subversion.

Estimate of Future Developments

Thailand's stability probably will not be adversely affected by internal forces during the next few years. The present ruling group probably will respond to the initial stages of Communist pressures by pulling closer together and will continue its anti-Communist stand. Thailand's future stability and orientation will, therefore, be largely determined by external developments, in particular by US and Communist courses of action in Southeast Asia.

During the next few years the Communists are unlikely openly to invade Thailand with Chinese Communist or other identifiable Communist forces. They will, however, attempt to enhance Communist capabilities and influence in Thailand by: (a) developing internal subversive organizations and by using their capabilities in neighboring countries for progressive infiltration of Communist guerillas and agents; and (b) bringing to bear diplomatic and propaganda pressures against the Thai government in an effort to weaken its alignment with the US.

The extension of Communist control to all of Vietnam might stimulate doubts in Thailand over the wisdom of continuing a Western orientation. Communist control of Laos or Cambodia, by whatever means it were achieved, would significantly increase Communist subversive capabilities in Thailand and would almost certainly weaken Thai confidence in their Western alignment.

In the latter situation, the Thai government would probably remain aligned with the West only if it remained convinced that the US had both the will and the ability to defend Thailand against Communist aggression. If an invasion in force should occur, Thai resistance would probably be shortlived, unless US forces were speedily brought to bear. Furthermore, the Thai might come to believe that their close alignment with the US would not deter

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a Communist invasion of their country and might even give further incentive to the Communists to invade Thailand. They might feel that even if the US were clearly willing to defend Thailand, it would not be able to do so without protracted and large-scale warfare on Thai soil. If the Thai leaders estimated the situation in this way, they would probably be disposed to reject US assistance and to seek some sort of accommodation with the Communists.

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G. AUSTRALIA

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Political

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Prime Minister Menzies' conservative coalition government, returned to office by a narrow majority in the May 1954 elections,

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has closely cooperated with American foreign policy. It has resisted pressures from London for Britain's admission to ANZUS. While strongly disclaiming any intention of weakening Commonwealth ties, both the present government and its labor predecessor have sought to broaden Australia's role in world affairs and to assert an independence that has occasionally thrown them out of step with London.

The high point of Communist strength in Australia occurred in the immediate postwar years when party members held key posts in most of the large trade unions. This situation no longer obtains and the reduction of Communist influence in the unions has been reflected in a strengthening of the right-wing of the Labor Party. Several Communist candidates were, however, elected to municipal posts in elections late last year as a result apparently of strictly local and transitory factors.

Economic

The Australian economy, sensitive to fluctuations in world prices for wool, has been stable for the past year. However, the economy is still plagued by a labor shortage and by low labor productivity.

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FAR EAST

I.	THE	PHILIPPINES*

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Political

Despite heavy physical destruction and disruption caused by World War II, the Philippine Republic has regained its prewar level of economic activity and has achieved a large degree of social and political stability. Nevertheless, there is still an excessive concentration of wealth and political leadership generally reflecting the interests of a small privileged class.

Elected in November 1953, the popular Magsaysay administration has to date wrought no basic change in the economic and social structure of the Philippines and has only begun its promised rural development program. In large measure this failure has been due to Magsaysay's tendency to yield to the strong political pressures around him, and to his serious political differences with the extreme conservative elements of his Nacionalista Party.

Largely as a result of vigorous action by Magsaysay when he was Secretary of National Defense, the strength of the Huk armed dissident movement has declined from 12,000 in 1950 to about 2,500. The Huk threat now appears to be no more than a problem of peace and order.

The Philippine Communist Party, as distinguished from the Huk movement, has an estimated strength of 3,000. It was outlawed in 1951. The local Chinese Communist Party has a strength estimated to be between 3,000 and 5,000.

Philippine foreign policy is almost entirely determined by its close ties with the US. The Philippine Republic-US Mutual Defense Pact assures the Filipinos that US. forces will protect against foreign aggression. Philippine policies toward other Asian nations generally parallel US. policies. Despite popular apprehension over the recent tension in the Formosa straits, the Philippine Senate has emphatically backed Magsaysay in his support of the US position.

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Economic

The Philippine economy remains underdeveloped. There is little modern industry. Crop yields are low by Far Eastern standards. Income is low and its distribution is extremely unequal. However, the potentialities for development are relatively good.

The Philippine Republic has concentrated over the past several years on rebuilding and expanding industry, and as a result of these efforts, plus considerable US aid, grants, and military spending, some development has been achieved. In its scheduled Five-Year Plan, the Magsaysay administration is placing much more emphasis on errorts to increase agricultural productivity and to proceed with agrarian reform, and most pressing tasks confronting the administration. In recent months, over-all economic output has increased, but bad weather has reduced the rice crop and substantial imports will be required. Agriculture accounts for 60 percent of the GNP and more than 80 percent of the dollar-earning exports. Approximately 75 percent of the people are engaged in the production or processing of agricultural products.

Military

The armed forces total 53,000. Judged by US standards, their combat proficiency is below an acceptable level for conventional warfare. However, the Philippine armed forces have proved to be very capable in the conduct of anti-guerrilla operations.

Estimate of Probable Developments

During his four-year term, President Magsaysay will probably retain a parlimentary majority. However, the opposition of the vested interests to change will probably cause his administration to fall considerably short of its ambitions. However, Magsaysay can carry out certain aspects of his program, such as the elimination of corruption in government, without recourse to Congress. Therefore, he can probably achieve sufficient success to convince the Philippine voter that the government is being rid of graft. In attempting to implement his program for economic development, he will continue to look to the US for financial assistance.

Over the next two years, the Philippine government will probably succeed in virtually eliminating organized Huk dissidence and reducing the effectiveness of Communist infiltration and subversive activity.

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In foreign affairs, the Magsaysay administration will almost certainly maintain close Philippine alignment with the US and other anti-Communist countries.

The Philippine Republic will probably seek to improve relations with Japan and to expand Philippine-Japanese trade. It is unlikely that, within the next few years, the Philippine Republic will of its own volition attempt to assume a position of leadership among Southeast Asian nations or to take a dominant role in any Far Eastern regional security arrangements. However, it is probable that the Philippines can contribute to bringing about somewhat closer economic and cultural cooperation among Southeast Asian countries. Should Magsaysay appear to be compromising Philippine interests in response to US. pressure, his prestige could be damaged and his policies endangered.

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FAR EAST

J.	indonesia*

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Political

Indonesia has made little progress toward establishing strength and stability during its five years of independence. The country's basic problems of economic underdevelopment, internal security, and administrative reform remain unsolved, while the government centers its activities around efforts to remain in power. The government's efforts, and those of the chief opposition parties, are currently focused on the elections, scheduled for the latter half of 1955, for a Constituent Assembly to draft a permanent constitution and for a new parliament to replace the existing appointed body.

The present Ali government, in office since 30 July 1953, is a coalition of some 12 parties led by the Nationalist Party (PNI). Because the coalition does not have a parliamentary majority, to stay in power it has had to accept the support of the Indonesian Communist Party (PKI). The PNI draws political strength from its identification with the nationalist-revolutionary movement and from the public support of President Sukarno, who remains the most influential Indonesian leader. Sukarno's stepping down from a position above the political struggle and his willingness to join with the PNI in their "using" the Communists are motivated primarily by his desire to retain his dominant position.

Although the opposition is generally anti-Communist and somewhat more inclined to cooperate with the West, the various elements within the opposition have been unable effectively to unify their efforts or to gain sufficient strength in the Parliament to overthrow the government. The Masjumi, the major opposition party, is a Moslem party with probably the largest popular following. However, it is weakened by political schisms and by PNI-PKI propaganda which associates the Masjumi with extremist Moslem dissidents and "foreign imperialists."

PKI. The Indonesian Communist party (PKI), by supporting the present government and espousing popular national and local issues, has significantly increased its prestige and membership and extended its organization. Moreover, it has wen some public support for international Communist causes and to some degree has influenced Indonesian government policy toward labor

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^{*} This section is a summary of NIE 65-55, "Probable Developments in Indonesia through 1955," 1 March 1955.

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and the armed forces. Through control of various front groups and SOBSI, a federation representing 70 percent of organized Indonesian labor, it has a greater popular influence than its membership (approximately 170,000 actual and "candidate" members) would indicate. However, the extent of Communist infiltration and strength in the government is difficult to assess due to the similarity in the short-run objectives of Communists and leftist Indonesian nationalists. Though the PKI is not represented in the cabinet, some cabinet members are reputed to be Communist sympathizers. In particular, Defense Minister Iwa and, to a lesser degree, the Minister of Labor and Justice have pursued policies favorable to the Communists.

Nevertheless, the party is still opposed by the bulk of the army, members of the bureaucracy, and the opposition political parties. Furthermore, its hard disciplined core is small, and it has not developed effective paramilitary support.

Economic

Though rich in natural resources, Indonesia has one of the lowest per capita income levels in the Far East, and the bulk of its 80 million inhabitants has little better than a subsistence level of existence. The national economy is heavily dependent on exports of tin, rubber, oil, and agricultural products vulnerable to world market fluctuations. The need for industrial expansion and diversification of export products remains unsatisfied largely due to a critical shortage of investment capital and technical personnel. Indonesia has no comprehensive plan for its economic expansion, and effective implementation of current stop-gap measures is further hampered by corruption and administrative ineptitude.

Military

The Indonesian Army (180,000) is poorly equipped and trained, and weakened by factionalism and political intervention. Against a modern attacking force it is capable only of guerrilla harassing tactics. The capabilities of the navy and air force are negligible.

Despite army weaknesses and government inaction, some slight progress has been made in restricting the areas of operation of approximately 35,000 dissident guerrillas now active in Indonesia.

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Foreign Affairs

As a newly independent nation in which anti-colonialism is still strong, Indonesia's chief foreign policy objective is complete independence from foreign political and economic influence and non-involvement in the East-West struggle. To strengthen its position as a neutral, Indonesia has broadened its relations with the Communist Bloc. Trade with the Soviet Bloc has so far been of little practical economic value, and despite its 1954 trade agreement with Communist China, totalling \$16,000,000, Indonesia apparently adhered to the UN embargo on the sale of strategic materials to Communist China. Indonesia continues critical of the US and its efforts to develop an anti-Communist Asian bloc; however, US technical aid has been well received, and Indonesians probably desire additional aid under favorable, non-restrictive conditions.

Estimate of Probable Developments through 1955

The chances are better than even that elections will be held during the latter half of 1955. The present government is likely to remain in office during 1955 or until elections are held. It is unlikely to make significant changes in foreign or domestic policies prior to elections. A Masjumi-dominated government will probably emerge from the elections. However, a PNI-PKI coalition government is possible.

Forceful overthrow of the government appears unlikely. However, this might occur if the PNI made a determined effort to postpone or rig the elections. Government efforts to remove anti-Iwa territorial commanders, unlikely at the present, might also result in forceful counteraction. In either case, if the political opposition and the anti-Iwa Army elements acted in concert, the government would probably be defeated. Even if successful, armed action would probably result in continued unrest and disunity throughout Inconesia. A Communist attempt forcefully to overthrow the government is unlikely. Should the Masjumi come to power, the Communists might attempt to harass the government by causing economic disruption through SCBSI, and adopting territoristic tactics which could seriously disrupt economic and administrative activities in several important areas. But they do not have, and are unlikely to develop in 1955, a paramilitary force strong enough either to take over the government or to seize and maintain effective control of large and important areas in Indomesia.

Indonesia's short-term economic prospects are poor. However, since adequate supplies of food and imported textiles will be available, economic unrest will probably not affect the political situation in 1955.

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SOUTH ASIA

A	INDIA	

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Political

At present India is one of the more stable non-Communist nations of Asia. Prime Minister Nehru's personal leadership is unchallenged, and his Congress Party still has no rival capable of competing effectively against it on a nation-wide scale. The Congress Party has an overwhelming margin of control in the central government, which occupies the dominant position under India's federal system. It also holds effective majorities in most of the state legislatures, and has managed to retain some form of control in the remainder.

India's present political stability is being gradually undermined in various ways. The demand for establishment of new linguistic states like Andhra, which was set up in 1953, poses a threat to the strength and stability of the government structure which the Congress leadership dares not oppose openly. Other manifestations of regionalism are also appearing. More important, popular confidence in and support for the present leadership is tending to decline, in part because of lethargy within the Congress Party, but mainly because of growing economic and social dissatisfaction. This feeling revealed itself sharply during 1954 when the Congress Party failed to achieve its previously held majority in the Travanchore-Cochin state elections; and in Andhra, where a Congress-dominated government was overthrown. However, the party has made a strong comback in the March 1955 Andhra elections, has shown continued strength in other local elections, particularly in East Bengal, and, for all its deficiencies, remains by far the strongest political force in India.

The Communist Party (CPI) is small (50,000 members) and, on the national level, is weak and beset with internal differences. In the 1952 national elections it polled only 5 percent of the popular vote and now occupies only 27 out of 489 seats in parliament. Although the CPI holds a significant number of seats in several state legislatures, its fortunes are now at a low ebb, due primarily to the crushing defeat it suffered in the Andhra elections, where the party made a major effort.

Economic

India's economy is primarily agrarian with over 80 percent of the population living in rural areas. Industry, while growing, is still small. There are however, extensive undeveloped natural resources including coal, iron, manganese, mica, copper, bauxite, and water power.

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During the past two years some progress has been made under the Five Year Plan (1951-1956). As a result of good harvests and improvements in agriculture, the production of foodgrains increased sharply, permitting a reduction of food imports. Industrial production has continued to increase. The cost of living has decreased slightly. Finally, the balance of payments situation has been favorable.

However, India faces grave economic problems. The high and increasing ratio of population to developed resources, particularly in the countryside, results in widespread unemployment and underemployment, and threatens to drive India's already low standard of living still lower. The problem of maintaining consumption standards is complicated by the fact that post-partition India has never been self-sufficient in food, necessitating the import of foodstuffs even in good years.

India's low rate of savings -- now only about 5 percent of national income -- severely limits over-all economic growth. The lack of replacement capital for India's present industrial and communications facilities also presents a problem. While food production goals for the Five Year Plan were exceeded in 1953-1954, the effect of these gains has been offset to some extent by an estimated 7 percent annual population increase, a problem which will continue to plague India for many years. Moreover, successful carrying out of even this limited approach to India's economic problems is uncertain in view of the substantial foreign aid which will still be needed. India will have received nearly \$300 million in American aid from FY 1952 through FY 1955 plus a \$190,000,000 food loan in 1951. It is also receiving some Commonwealth aid through the Colombo Plan. The IBRD has made loans totalling nearly \$110 million.

The Nehru government's announced goal of a "socialistic pattern of society," a concept which calls for public ownership or control of the principal means of production, has created an unfavorable climate for both foreign and domestic investment, a development which will probably somewhat retard economic growth. Meanwhile, the government has signed contracts with the USSR and West Germany calling for the construction of two government-owned steel plants.

Military

India maintains about 1425,000 ground troops who are of generally good fighting quality, but are hampered by a shortage of qualified senior officers and by dependence on foreign sources for equipment heavier than small arms. The Indian Navy numbers 8,900 and the air force about 14,000. The army is capable of maintaining internal security and could defend India against Pakistan. However, without major outside logistic support, India could not defend herself, even in cooperation with Pakistan, against determined attack by Communist China.

Estimate of Probable Developments

Nehru and his Congress Party have an excellent chance of retaining control of the central government and most state governments in the next general elections in 1957. While the Communists or a coalition party might possibly gain control of one or more state governments at that time, there is no indication that the Communists could gain control of the central government, and any Communist resort to violence is likely to encounter vigorous and effective counteraction.

Nevertheless, the position of India's present leadership and the stability of the country as a whole will continue to be threatened by internal social divisions and the grave economic problems arising from the high and increasing ratio of populatiom to developed resources. Even if it succeeds in financing and effectively carrying out the present Five-Year Plan, the Indian government will still be confronted with the formidable task of reversing the present tendency for population to grow more rapidly than employment opportunities and production.

India will almost certainly maintain its present position of non-alignment in the East-West struggle, regardless of Soviet or Western actions, so long as it does not consider its own interests to be directly threatened. Nehru will continue to be strongly critical of US foreign policy particularly in the Far East. However, Nehru is aware of the need to build up India's strength in the face of the threat from Communist China. He may therefore be more interested in receiving Western economic assistance. As a result of Communist successes in Indochina, India would probably be most concerned at any Communist encroachment in Laos and Cambodia. However, it is unlikely that India would assist in repelling a Communist attack on any foreign territory except Nepal and Bhutan, and possibly Pakistan and Burma. Although India will continue to oppose US aid to Pakistan and the activities of SEATO, it is unlikely that this attitude will lead to any basic change in foreign policy.

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SOUTH ASIA

B. PAKISTAN*

Political

The Pakistani government is now directly controlled by a small group of British-trained, pro-Western administrators and military men centering around the ailing Governor-General, Ghulam Mohammed. His two principal associates are General Iskander Mirza and General Ayub Khan, Commander-in-Chief of the Army. Alarmed over economic difficulties, the growth of corruption, extremist religious influence, and political irresponsibility in Pakistan, and convinced that its interests required a firm alignment with the West, the Governor-General in April 1953 summarily replaced inept Prime Minister Nazimuddin with the present incumbent, Mohammed Ali, apparently hoping thereby to restore effective Muslim League leadership. Since then. however, Ghulam Mohammed and his associates have felt compelled to assume power more openly as the once dominant Moslem League Party continued to disintegrate. In May 1954, Governor's Rule, an emergency form of central government administration, was established in East Pakistan following the overwhelming defeat of the Muslim League in the March provincial elections and the subsequent failure of the victorious United Front coalition to cope with internal disorders in the province. The Governor-General's group took another step toward direct exercise of power after the "constitutional coup" of September 1954, in which a group of Muslim League politicians, with at least the acquiescence of the Prime Minister, rammed a bill through the Constituent Assembly to curtail the Governor-General's powers. Within a month, Ghulam Mohammed proclaimed a state of emergency, dismissed the Constituent Assembly -- which also functioned as the national legislature -- and reshuffled the cabinet, bringing in Mirza and Ayub. Prime Minister Mohammed Ali, who was retained on suffrance, is the only major Muslim League figure in the cabinet, which was broadened to include H. S. Suhrawardy, a leader of the United Front coalition, and other smaller party representatives.

The present regime, which is answerable only to the Governor-General himself, is concentrating on three general lines of policy:
(a) maintenance of a strong central government; (b) continuation of economic development through austerity measures and foreign aid; and (c) maintenance of close relations with the US and the development of further ties with the states of the Middle East. It has retained

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^{*} This section is largely a summary of NIE 52-55, "Probable Developments in Pakistan." 15 March 1955.

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Governor's Rule in East Pakistan, but shows an awareness of the need to give East Pakistan greater benefits and an increased sense of participation in national affairs. In order to improve administration, the regime is also moving to consolidate the several provinces of West Pakistan under a single provincial government. Finally, the ruling group is preparing a constitution, which the Constituent Assembly failed for seven years to do. This constitution, which is reportedly to be ratified by a new, handpicked Constituent Assembly, will probably provide for: (a) a strong central government with predominant power residing in the executive; (b) secularism at the expense of Islamic conservatism; and (c) greater recognition of the aspirations of East Pakistan. Although the new constitution will probably provide for democratic forms and procedures, it will almost certainly contain emergency and interim provisions designed to enable the ruling group to retain control.

Economic

Pakistan faces serious economic problems. It is basically a poor country with a per capita GNP of about \$70. Three-fourths of the national income derives from agriculture, chiefly wheat and cotton in the western areas and rice and jute in East Pakistan. While Pakistan has in most years enjoyed a precarious selfsufficiency in basic foodstuffs, it is heavily dependent on imports for key consumer goods, industrial raw materials and capital equipment for its development program. Eighty-five percent of Pakistan's export earnings come from jute and cotton, world markets for which have been depressed since the end of the Korean War. As a result, Pakistan suffers from serious foreign exchange shortages which have led to grave inflation in consumer goods prices, a slowdown of the development program, and severe shortages of raw materials. In coping with this situation, Pakistan has been forced to rely heavily upon foreign aid, about 95 percent of which has come from the US. (The US has supplied or programmed about \$250 million in economic and technical assistance between 1952 and 1955.) Without this assistance, Pakistan would almost certainly have had to curtail further its economic development program and possibly further reduce its military expenditures in order to avoid serious popular discontent.

Military

Despite its economic weakness, Pakistan has devoted almost 40 percent of the federal budget to the armed forces, primarily for defense against India and secondarily for securing the Afghan

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frontier and preserving internal security. The armed forces consist of an army of about 148,000 men, supplemented by 20,000 men raised and stationed in Pakistani-controlled Kashmir; the quasi-military Security Forces, totalling about 48,000 men; an air force of 13,500 men; and a navy of 6,500. Despite good leadership and excellent discipline and morale, the effectiveness of Pakistan's armed forces is limited by obsolescent and inadequate material, dependence on foreign sources for supplies, a dearth of technological skills, and the extraordinary problems posed by the country's separation into two distant areas. Pakistan's armed forces can maintain internal security, but in an all-out fight with India would probably be defeated. Pakistan is now beginning to receive US military assistance. Completion of the present programs, which in the case of the army will require five years or more, will enable Pakistan to put up a fairly strong defense of its own territory, though it will still be dependent on foreign sources for much of its supplies.

Foreign Affairs

Pakistan's present regime is strongly pro-Western and antiCommunist in outlook, and during the past two years it has cultivated
increasingly close ties with the US. This open alignment with the
US stems less from ideological motives than from Pakistan's urgent
need for assistance in meeting its economic problems and from its
desire for US military and diplomatic support to strengthen its
position against a much stronger India. Pakistan also probably
sees in such an alignment opportunities to strengthen its prestige
and influence in the Middle East and South Asia. It has cooperated
with such geographically separated US efforts as Middle East
defense, through the Turkish-Pakistani Agreement, and resistance
to Communist aggression in Southeast Asia, through the Manila Pact.
It has also continued to take an active part in Commonwealth affairs,
though UK and Commonwealth influence has declined somewhat with the
development of Pakistani ties with the US.

Estimate of Probable Developments

It is estimated that the present regime will remain in power at least through 1955 and probably considerably longer. Its firm control of the armed forces will almost certainly enable it to discourage or if need be defeat any challenge, and it is unlikely to allow itself to be ousted by political maneuvering. The once-dominant is unlikely to revive as a major political force.

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However, for several years at least, the regime will probably be handicapped by a lack of organized political and popular support and even more by the thinness of its top leadership. The death of the siling Ghulam Mohammed, which might come at any time, would probably not lead to the fall of the regime, but it would severely test the ability of Mirza and Ayub, and might compel them to rely more overtly on the armed forces. Should Mirza and Ayub in turn be removed, a many-sided struggle would probably follow. This might give rise to another, basically similar, authoritarian regime or it might result in serious internal disorganization and perhaps a weakening of Pakistan's present alignment with the US.

Provincialism, particularly between East and West Pakistan, will remain a source of some trouble indefinitely. However, if the government succeeds in alleviating East Pakistan's economic distress, and recognizes the provinces other sensibilities, a major source of disunity can probably be reduced. Actual separatist tendencies are not likely to emerge as a major threat.

Presently programmed US economic assistance will alleviate Pakistan's immediate economic difficulties. In time, given substantial foreign aid and a settlement of the canal dispute with India, Pakistan has fairly good prospects of increasing agricultural production, and possibly of achieving self-sufficiency in textiles. At best however, Pakistan is unlikely to do much more than keep its head above water economically, and will probably be a recurrent petitioner for economic assistance for a number of years.

Under the present or any similar regime, Pakistan will almost certainly continue to cultivate close ties with the US, if only because of its urgent need for US economic assistance and its desire for US military and diplomatic support to strengthen vis-a-vis India. The present regime will probably cooperate with US efforts in developing anti-Communist defense arrangements in both the Middle East and South Asia. It is not likely, however, to commit any more than token forces cutside Pakistani territory unless its armed forces are considerably strengthened, its economy improved, and its fear of India greatly reduced.

Although settlement of the Kashmir dispute remains highly improbable, Pakistan's relations with India are unlikely to worsen critically, and prospects are reasonably good for an eventual settlement of the canal waters dispute and various lesser controversies. Pakistan's relations with Afghanistan are likely to remain clouded as long as Afghanistan keeps up its campaign for an autonomous Pushtunistan for the Pathans of the Northwest Frontier Province. However, relations are unlikely to deteriorate seriously.

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SOUTH ASIA

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C. THE KASHMIR DISPUTE
(See Map, Figure IV-C-1)

India and Pakistan have been in dispute over control of Kashmir since the two countries became independent in 1947. In 1948 a cease-fire agreement left India in possession of all but a small strip of remote tribal territory along Kashmir's western borders. UN efforts to secure agreement on how to prepare for the plebiscite agreed to by both parties have failed, primarily on the question of the number of troops to remain in Kashmir during the plebiscite. (At present there are about 60,000 Indian troops facing approximately 20,000 Pakistanis in Kashmir.)

UN efforts to settle the dispute have virtually ceased in the last two years and there has been little bilateral discussion between India and Pakistan. India, which regards Kashmir as legally part of its own territory by virture of accession and has sought to make it a functioning part of the Indian Union, has made clear that it will make no significant concessions regarding Kashmir. While Pakistan remains reductant formally to renounce its claims in Kashmir, Pakistani emotionalism on the subject has declined and official interest in reaching some accommodation with India has grown. It is unlikely that either side would resume hostilities, and while the dispute may drag on for some years, a settlement on the basis of the status quo will probably eventually be achieved.

The internal situation in Indian Kashmir steadily deteriorated during 1954. India has sought to maintain control through Prime Minister Bakshi, who replaced Sheikh Abdullah at Indian instigation in 1953. This control has, however, been weakened by Communists or Communist sympathizers, who have attained positions of considerable influence in the government. Furthermore, the non-Communist opposition in the Constituent Assembly (which serves as a legislature) has also gained strength. Should the government's control deteriorate seriously, India would probably intervene once again to restore the situation.

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D.	AFGHANIS TAN*

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Political

Afghanistan, a primitive, heterogeneous tribal kingdom of 8-12 million, is controlled by a small oligarchy composed of members of the royal family. Although the royal family is not very popular, its position is rendered reasonably secure through its control of the government and the army and through the payment of subsidies to the principal tribes, chiefly the Pathans of south and southeast Afghanistan. There is no evidence of a Communist Party or a significant number of Communist sympathizers in Afghanistan. The three changes of prime ministers which have occurred within the last decade, the most recent being the accession of Prince Daud in September 1953, have been effected peacefully within the royal family councils. Daud is probably less favorably disposed toward the West than most Afghan leaders and he, along with Finance Minister Malik, who is the other key figure in the present regime, is largely responsible for the current policy of closer economic relations with the USSR.

The population is ethnically heterogeneous and the various groups have little in common beyond adherence to Islam. There is a lack of national spirit and a general dislike of the central government. Afghanistan's ruling oligarchy stems from the principal Afghan Pathan tribe. Other ethnic groups have little or no political power in Afghanistan and for the most part have been forced to accept a second class status within the nation.

Foreign Policy

Afghanistan has taken a neutralist position in the present East-West conflict and continues to seek maximum advantage from balancing the interests of the two great power blocs. Most Afghan leaders recognize the desirability of maintaining good relations with the West as a counterpoise to the USSR, which they fear and distrust. A major theme of Afghan foreign policy has been its demand that an antonomous state, Pushtunistan, be created from Pakistan territory for the approximately five million Pushtu-speaking Pathan tribesmen on the Pakistani side of the Afghan-Pakistani border. Pakistan firmly refuses to consider these claims, which have now become an issue of

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national prestige with certain Afghan leaders. If the Pushtunistan irritant were removed, both Pakistan and Afghanistan would probably welcome closer ties.

Afghanistan maintains friendly relations with the principal Arab states and with Turkey and India. Afghan-Iranian relations have been irritated chiefly by the controversy over the waters rights of the Helmand River.

Economic

The Afghan economy is largely self-sufficient in basic foodstuffs. Growing Afghan desires for economic development have led to an increased interest in foreign trade. Sixty to seventy percent of Afghan foreign trade is with non-Bloc countries. Soviet trade constitutes the other thirty to forty percent of Afghanistan's total legal trade. Afghanistan's most serious economic problem results from its dependence for foreign exchange on the export of karakul (Persian lamb) skins to the West, chiefly the US. As a result of recent declines in the sales of the skins to the US, Afghanistan is confronted with a serious shortage of foreign exchange.

Economic development in Afghanistan has been accelerated since World War II, and is heavily dependent upon outside loans and technical assistance. The US has supplied more than \$5 million in development assistance and technical aid, and the Export-Import Bank about \$40 million. Within the last year, the USSR has made a series of offers to Afghanistan of economic loans and technical assistance. So far, Afghanistan has reportedly accepted over \$6 million in Soviet loans and a \$5 million credit from Czechoslovakia.

Military

The strategic significance of Afghanistan is as a buffer state, separating the USSR on the north from non-Communist Pakistan and India to the south, but itself dominated by neither the Communist nor the non-Communist power bloc. The Afghan armed forces consist of the Royal Afghan Army (about 15,000), the Royal Gendarmerie (about 20,000), and the small Air Force (about 30 air-craft). The greater part of the armed forces are located in tribal areas in eastern and southern Afghanistan and in Kabul. The armed forces are capable of maintaining internal security, provided there were no simultaneous wide-spread tribal uprisings, but would quickly disintegrate as an organized force against outside aggression.

Estimate of Probable Developments

In the absence of strong subversive interference, the royal family can probably meet any likely challenge to its control of Afghanistan in the

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foreseeable future. A change of prime ministers would not substantially alter present internal and external policies, although there might be some weakening in the present trends toward a statist economy and toward expanded economic ties with the USSR.

Afghanistan's shortage of foreign exchange may become critical in the next three years. In this case, Afghanistan's need for barter trade may increase its vulnerability to economic threats and inducements from the USSR. Afghanistan's longer term economic prospects including economic development on a modest scale, will be reasonably good.

Soviet attentions to Afghanistan, particularly in the form of technical and economic assistance, are likely to increase substantially as part of a general effort to counter Western gains elsewhere. The Soviet reaction would be particularly strong if Afghanistan's participation in a Western-backed defense arrangement or its acceptance of substantial Western military aid appeared to be in prospect. Soviet economic penetration may well result in a gradual drift of Afghanistan toward the Soviet orbit. Nevertheless, it is unlikely that the USSR will actually gain control of Afghanistan, at least within the next few years.

The Afghan government is likely to continue with its fundamental policy of attempting to play off the great powers to Afghanistan's advantage, mean-while continuing its association with the Arab-Asian bloc in the UN. It is unlikely that the Afghans would actually accept membership in a Western-backed area defense arrangement since they almost certainly realize that no fore-seeable arrangement could furnish them sufficiently realistic protection against Soviet attack to compensate for the increased Soviet hostility toward them which would almost certainly ensue. Afghan leaders will attempt to obtain additional Western economic aid to counterbalance that received from the USSR.

Chances for an improvement in Pakistan-Afghanistan relations are poor. Although there has been some official discussion of a confederation between the two countries, it is extremely unlikely that such a merger will take place. Afghan agitation of the Pushtunistan controversy is likely to continue. If the controversy should become more acute, Pakistan might feel compelled to take countermeasures such as covertly creating tribal disturbances within Afghanistan. However, open hostilities between the two countries are unlikely.

SOUTH ASIA

E.	CEYLON

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Political and Military

Ceylon, a member of the British Commonwealth, has since 1952 enjoyed political stability and an improving encomomic situation. The government of Prime Minister Sir John Kotelawala's United National Party controls over half the seats in the legislature and has, in general, provided an efficient administration. Although there have been indications that Kotelawala has lost personal popularity because of his high-handed tactics, his political position is generally secure. The small Communist Party is not a strong factor in Ceylonese politics.

Ceylon has become increasingly active in foreign affairs. It has shown considerable initiative in the affairs of the Colombo Powers—Ceylon, India, Pakistan, Burma, and Indonesia. This activity has been characterized by an increasingly pro-western policy, revealed in its contacts with such neutralist countries as India, Burma, and Indonesia. However, Ceylon is still officially neutral, even though it might at some future date be willing to sign a Mitual Assistance Treaty with the US, provided it received sufficient aid in return. Furthermore, relations with the West are complicated by the large amount of rubber which Ceylon exports to Communist China.

The most pressing domestic problem is the future status of almost 1,000,000 Indian immigrants in Ceylon (the total population of Ceylon is about 8,300,000). Despite agreements reached with India in 1954, Ceylon seems determined to repatriate as many Indians as possible and keep the rest in political and economic subjugation. This policy points to continuing friction with India.

Ceylon's armed forces, numbering less than 3,000, are valueless except for internal security. For its external defense the country depends on the UK which maintains bases on the island.

Economic

Ceylon is obliged to import two-thirds of its food requirements. Since its exports consist primarily of only three agricultural products -- tea, rubber, and coconut products -- the economy is extremely vulnerable to external economic forces. For the past two years, however, the economic condition of the country has been good.

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In 1952, when desperately short of rice, Ceylon entered into a five-year rubber-rice barter agreement with Communist China. In 1954 over 50,000 tons of rubber were shipped to Communist China. Trade with the Bloc amounted to 12 percent-- 14 percent of total foreign trade in 1954, of which 98 percent represents rubber exports to Communist China, and 90 percent imports from Communist China, the major item being rice.

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MIDDLE EAST AND AFRICA

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V. MIDDLE EAST DEFENSE

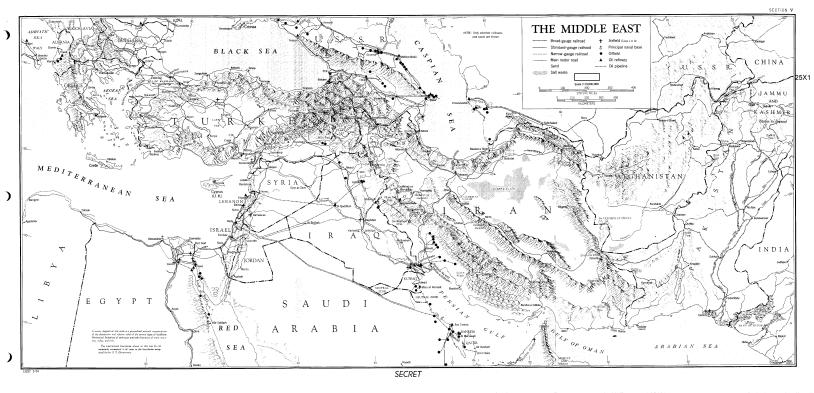
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(See map following this page)

This section will be distributed after the publication in the second quarter of 1955 of NIE 30-55, "Middle East Defense Problems and Prospects."

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MIDDLE EAST AND AFRICA

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Political

Since the overthrow of Mossadeq in August 1953, political power in Tran has largely reverted to the conservative landowning, commercial and military groups who controlled the country prior to the oil nationalization crisis of 1951. The Shah has been confirmed in his central role in the government structure. The tribal situation is quiescent. The principal new features of the situation are: (a) the extensive use of authoritarian means to curtail opposition; (b) the emergence of the US as an acknowledged major influence in the situation; and (c) the remergence of British political and economic influence.

Up to early April 1955, the government was headed by General Zahedi, who had been a leading figure in the overthrow of Mossadeq. Under Zahedi, reasonably orderly and stable government was established. The government dealt firmly with extremists. It also took initial reform steps in such basic problems as currency and economic development. Most important, it pushed through an oil settlement and apparently convinced a considerable part of the public that some such settlement was necessary.

Despite these achievements, Zahedi failed to create a real basis for lasting stability. The strains and dissatisfaction which accounted for much of the success of Mossadeq's nationalist appeal have not been eliminated, and extreme nationalism itself has been repressed rather than destroyed. Zahedi failed to achieve widespread support and did not succeed in checking inflation or in making progress toward improving the economic and social lot of the population as a whole. Furthermore, many officials, including Zahedi himself, were widely accused of corruption. The effectiveness of the government was severly limited by constant friction between Zahedi and Ebtehaj, the Director of the Seven Year (economic) Plan Organization. Finally Zahedi did not enjoy the confidence of the Shah, with the result that the latter finally replaced him with Hussein Ala, former Minister of Court. Ala is a sick, old man whose appointment is plainly an interim one, pending the selection of a more permanent successor.

The Communist Tudeh Party, numbering about 7,500, is at one of the lowest points in its history, though it remains the only political opposition group in Iran which has some organization and discipline. In the past

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^{*} This represents an updating of NIE 34-54, "Probable Developments in Iran Through 1955", 7 December 1954.

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year the party has been subjected to severe governmental restrictions and propaganda attacks, and received a serious setback through the uncovering in August 1954 of a Tudeh network in the armed forces. In the face of government plans for continued repression, the party is almost certainly primarily concerned with attempting to maintain an effective organization.

With the strong support of the Shah, Iran has moved toward alignment with the West, particularly the US. The timely extension of US support and guidance has made the US the dominant western influence in the Iranian Government. Relations with the UK have improved, but most Iranians are still extremely suspicious of that country.

Economic

The chief economic accomplishment of the Zahedi government has been the agreement between Iran and a consortium of eight Western firms for restoration of Iran's oil industry. This agreement calls for development of Iranian oil production by the end of the third full year of operation to a level yielding the Iranian government revenues of approximately \$175 million a year. The oil companies have indicated that they expect Iran's revenues to average out at least that level for the remainder of the 40-year contract period.

In other respects, the Iranian economy has done little more than mark time during the past 18 months. The \$188 million in US assistance made available to Iran since the fall of 1953 has enabled the government to finance its running expenses and continue the joint US-Iranian development program. The oil settlement has bolstered general business confidence and Iran's foreign credit standing. However, during the past year the urban cost of living has continued to rise, thus increasing the already heavy economic pressure on fixed income groups.

Military

Iran's present armed forces, including the gendarmerie, number over 150,000. They are organized primarily for internal security duty. Their traditional loyalty is to the Palace rather than to the government as a whole and all but the gendarmerie report directly to the Shah as Commander-in-Chief. Since the recent uncovering of a Tudeh espionage ring in the armed forces, it is believed that the armed forces can be presently considered fairly reliable. Since 1950 the US has assisted in efforts to modernize and improve the armed forces through maintenance of military missions to the army and the gendarmerie, and through \$110 million in military aid. Although the army is generally capable of fulfilling its primary mission of maintaining internal security, it would be unable to offer significant resistance to a Soviet attack.

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Estimate of Probable Developments

Iran will probably remain, at least through 1955, in the hands of predominantly conservative Western-oriented governments acceptable to the Shah. However, the removal of Zahedi will probably facilitate an increase in political ferment which may weaken the effectiveness of the government and facilitate a revival of extremist influence. Moreover, even if the conservatives succeed in retaining control beyond 1955, they will remain vulnerable to a Tudeh or nationalist-inspired flareup of popular feeling unless they make some progress in satisfying popular grievances.

The resumption of oil production, together with US aid, will provide Iran with substantial funds for an economic development program. However, the ultimate effectiveness of any such program will depend not only on the money available, but also on the way in which the government tackles the managerial and political problems involved. This, in turn, is likely to depend on the ability of the US and UK to work together to influence the Shah and other Iranian leaders. In time Iran will almost certainly seek increased participation in the management and profits of the oil industry. However, the oil question is unlikely to re-emerge as a burning issue so long as oil company policies pay due heed to Iranian sensitivity and aspirations.

In any event, Iran is likely to remain for a number of years a basically unstable country, plagued with continuing economic and financial difficulties. Its underlying social and economic problems are of a sort which can be solved only over a relatively long period of time and which, in the process, will generate new tensions and strains. The disruptive potential of popular discontent accompanying such tensions and strains will probably be increased unless the ruling group adjusts to a sharing of power with growing middle class elements.

So long as the Iranian Government continues to expect US economic, financial, and military assistance, it will remain responsive to US influence. As oil revenues are restored and US aid is reduced, however, Iranians may become increasingly determined to manage their own affairs and more resistant to US guidance.

The USSR would almost certainly regard it as provocative if Iran joined a western-backed regional defense organization, and would probably respond with strong diplomatic protests and increased subversive and propaganda efforts. The USSR might also threaten to invoke the 1921 Irano-Soviet Treaty, which it interprets as permitting it to introduce troops into Iran in case of threatened invasion from Iranian territory.

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If establishment of Western bases on Iranian soil appeared to be in prospect, the Soviet reaction would be stronger. While Iran will continue to resist Soviet attempts to interfere in Iranian affairs, it will at the same time be careful to maintain superficially correct relations with the USSR to avoid giving Moscow grounds for intervention.

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MIDDLE EAST AND AFRICA

B-1. ARAB STATES
(Egypt, the Sudan, Syria, Lebanon, Iraq, Jordan Saudi Arabia, Libya)

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Introduction *

The states of the Arab Middle East vary widely in political and social development, economic resources, and military and strategic importance. Certain trends, however, are common to most of them. The political, economic, and cultural impact of the West has led to the decay of traditional Arab values and institutions in all but the most remote areas of the Arab world. Most Arabs have also become increasingly resentful of the role of Western nations in Arab affairs.

In response to these conditions, the doctrines of Arab nationalism have gained widespread acceptance throughout the Arab world. In general, the nationalists seek: (a) the removal of the last vestiges of imperialism; (b) social and economic reforms; (c) cooperation among all Arab states and peoples for common ends, including satisfaction of Arab grievances against Israel; and (d) a revival of past Arab glories. Nationalism is strongest among the growing Westernized middle sector of Arab society, and its influence is most apparent where governments are susceptible to the effects of mass pressure tactics and public opinion. In all Arab states, however, the spread of nationalism has tended to weaken the traditional power of the old-line leaders who previously dominated most Arab governments with the support of interested Western Powers, in most cases the UK. At least in the short run, this trend contributes to instability.

Political instability in the Arab states is likely to continue in the foreseeable future, and serious threats to established governments will come from extremists of both left and right. A principal problem of Arab governments will be to reconcile the demands of local nationalists with their countries' need for such Western support as is necessary to maintain stability.

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^{*} This section represents an updating of NIE 36-54, "Probable Developments in the Arab States," 7 September 1954, which did not, however, include Libya.

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Economic maladjustment is also likely to contribute increasingly to instability in the next few years. Indigenous Arab leadership has shown little ability to cope with the problem of increasing production sufficiently to meet the requirements of growing populations and the demand for improved standards of living. As economic problems assume greater importance, there may develop an increasing tendency to seek extremist political solutions of the right or left.

While the current trends associated with nationalism in the area are on the whole adverse to the continuation of special privileged positions for Western nations in Arab countries, settlement of the Suez dispute and prospects for US military and economic assistance may provide a new basis for Arab-Western collaboration. However, Arab collaboration with the West will be influenced by the extent to which Western policies make allowance for fundamental Arab desires on such issues as imperialism and Israel.

The idea of Arab solidarity exerts a strong appeal in the Arab world, but national rivalries and conflicts of interest will continue to limit Arab cooperation. The Arab League was recently split wide open over the Turkish-Iraqi Agreement, with Egypt and Saudi Arabia carrying on a violent diplomatic and propaganda campaign against Iraq. Egypt and a new pro-Egyptian regime in Syria have announced plans (adhered to by Saudi Arabia) for a new Arab military grouping. Lebanon and Jordan have thus far remained uncommitted, although the latter may eventually align itself with Turkey and Iraq. The Arab States will, however, continue to be drawn together by their opposition to Israel. They are unlikely to end their political and economic boycott of Israel in the next few years, although they may become less intransigent about such problems as distribution of the Jordan Valley waters. On the other hand, Israel's policy of organized reprisals and the redeployment of Arab troops to border areas increase the danger of extensive hostilities resulting from incidents. If war took place in the next few years, it is probable that the comparative capabilities of the two sides would prove much the same as during the Palestine war of 1948-1949.

Communist activity in the Arab states has increased during the past year, aided by political instability, social and economic grievances, and Communist ability to exploit popular resentment of Western power in the area and Western ties with Israel. However, Communists are unlikely to be able to gain control of any Arab state in the foreseeable future.

MIDDLE EAST AND AFRICA

Arab States

B-2.	EGYPI

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Political

Since 1952, when King Farouk was forced to abdicate, Egypt has been ruled by the Revolutionary Command Council (RCC), a military junta of 10 young officers under the leadership of Lt. Col. Gamal Abdul Nasr. Nasr serves as Prime Minister, and the key cabinet posts are held by other RCC members. The RCC rules by decree. It has abolished the constitution, banned all political parties except its own Liberation Organization, and has made extensive use of its police powers against opposition groups.

During 1954 the RCC took a number of steps to tighten its control over the country. Nearly all former cabinet ministers were banned from political life, and the press was gradually purged. Following the attempted assassination of Nasr in October, the regime cracked down on the fanatic Moslem Brotherhood, its most dangerous opponent. Scores of members of the organization were imprisoned and several of its leaders executed. In addition, President Nagib, whom the RCC had unsuccessfully attempted to oust earlier in the year, was accused of complicity in the attempted assassination and removed from office.

Nasr, who was the prime mover in the RCC from the start, is the leading political figure in Egypt. Although decisions of the RCC are evidently still made by majority vote, Nasr's proposals are apparently usually accepted. However, a potential threat to Nasr's leadership has emerged in the person of Major Salah Salim, who directs the RCC's propaganda operations as Minister of National Guidance. Salah Salim, who has taken a leading role in the effort to build up Egyptian influence in the Sudan, has also of late tended to take the lead in foreign affairs, in some cases on what appears to be his own initiative. Although Nasr has reportedly been irked by Salah Salim's free-wheeling tendencies, he has thus far taken no overt actions to curb him.

Recently the attention of the RCC has been focused almost exclusively on foreign affairs. The RCC reacted strongly against the Turkish-Iraqi Agreement, which it viewed as a threat to Egypt's leadership of the Arab League. Having failed to deter the Iraqis from going forward with the agreement or to obtain Arab League censure of Iraq,

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Egypt has since espoused a new Arab military grouping, whose members would make no other alliances except by common consent. While Saudi Arabia and the new Syrian government have agreed in principle, the other states, principally Jordan and Lebanon, have been cool to the idea. Indeed Jordan may eventually join the Turkish-Iraqi Agreement. Egypt's inability to hold Iraq and the other Arab states in line and the humiliation suffered at the hands of Israel in the recent Gaza raid have been a source of intense frustration, particularly among Egyptian military men. As a result, the position of the RCC, whose only organized support is in the army, has been somewhat weakened. However, it is unlikely that any group could at present seriously threaten the RCC's control.

Relations with the West, which had improved following the signing of the Suez Agreement, have worsened somewhat in the past two months. The US in particular has been attacked for its support of the Turkish-Iraqi Agreement, though the RCC now appears to be seeking to mend its fences with the US.

Economic

World prices of long-staple cotton, on which Egypt depends for 85 percent of its export earnings, remains low, with the result that Egypt has been forced to reduce imports of essential items like foodstuffs and fertilizer. The government is diverting acreage to wheat and sugar, but Egypt's economy will probably still remain heavily dependent on cotton.

The land reform program, one of the first of the RCC's innovations, remains one of its major political assets. However, the basic source of economic distress in Egypt is not maldistribution of land but the lack of sufficient arable land to accommodate Egypt's dense and steadily growing population. The political value of the reform program will decline as it becomes clear that only a small fraction of the millions of landless peasants can benefit. Furthermore, rural living standards will not necessarily improve, and production may actually decrease slightly as a result of the attendant dislocation.

<u>Military</u>

The Egyptian Army totals 65,000. In addition there are 6,400 in the Frontier Corps. Both organizations are deficient in material and have a low combat efficiency. The air force and the navy are small and weak. The Egyptian armed forces are capable of maintaining internal security.

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Estimate of Probable Developments

The RCC's position appears to be reasonably secure at present. However, its ability to retain power might be seriously weakened if significant dissension should develop within the RCC itself or within the "free officers" group through which it maintains support within the armed forces. Over the longer run, moreover, the RCC's retention of power will also depend on its ability to maintain public confidence in its efforts to improve social and economic conditions and to win greater support from politically active elements in the community, most of whom are now in opposition.

Foreign affairs continues to be the area offering the greatest threats to the unity and prestige of the regime. While Egypt's vigorous opposition to the Turkish-Iraqi Agreement has probably encouraged an initial closing of ranks both within and without the RCC, it has not in fact been conspicuously successful in reasserting Egyptian primacy in Arab affairs and moreover has made it more difficult for Nasr to justify and carry out his policy of attempting to advance Egypt's national interests within the context of cooperation with the West. Further Israeli attacks like the Gaza raid, unless effectively countered, might lead to significant dissatisfaction with the armed forces. Finally the RCC may be headed for another major setback in the Sudan, where growing support for independence has developed among initially pro-Egyptian elements.

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Arab States

B-3.	THE S	SUDAN

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Political

The Sudan's first self-governing parliament, convened on 1 January 1954, marked the beginning of a transitional period to self-government. Under the terms of the Anglo-Egyptian agreement of February 1953, the Sudanese parliament must within three years call for a plebiscite to determine the future status of the country, either some form of union with Egypt or independence. In the transitional period, the British governor-general, with a multi-national advisory commission, exercises supreme executive authority and is responsible directly to the UK and Egypt.

The Egyptian-financed National Unionist Party, which relies on the Khatmia Moslem sect for popular support, gained a decisive victory in the November 1953 elections. However, this was due to anti-British sentiment and religious rivalry rather than a wholehearted endorsement of union with Egypt. The pro-independence Umma Party, political expression of the Ansar Moslem sect of Islam, suffered in the elections from identification with the British administration. Whether Egypt can continue to direct the National Unionist members of the Sudanese parliament during the transitional period will depend on its ability to satisfy Sudanese nationalism.

The new Sudanese parliament faces the complex problems inherent in premature self-government. The basic division of the country between the Arabic-speaking Moslems in the north and the four million primitive pagan black tribes in the south, as well as deep-seated political and religious antagonism, will complicate efforts to establish a stable government. Development of effective self-government is also likely to be handicapped by administrative friction between the British administrators and the Sudanese cabinet. The new government, headed by Ismail Azhari, is composed largely of inexperienced individuals noted only as political agitators against the British administration.

Economic

The Sudan's economy, primarily based on cotton, is currently experiencing a mild recession following the greatest boom in its history. Cotton represents some 80 percent of Sudanese exports and directly accounts for nearly 30 percent of the government's revenues.

Military

In addition to the Sudanese Defense Force, with a strength of 5,000 including some 50 British officers and noncommissioned officers, Britain and Egypt each maintain an infantry battalion in the Sudan.

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Estimate of Probable Developments#

The transfer of power from the governor-general to the Sudanese cabinet and parliament and the replacement of British administrative personnel with Sudanese will probably be completed without a constitutional breakdown. However, continued frictions are likely and serious crises are possible. The conflict between the opposition Umma Party and the incumbent National Unionist Party could result in serious instability or even civil war, especially as the restraining influence of the British is withdrawn. The clash between Egyptian and UK ambitions for influence in the Sudan may also create serious problems. The UK would like to have the Sudan opt for independence and conclude defense and commercial agreements with the UK. Egypt would prefer complete integration of the Sudan with Egypt. The Sudan is likely to choose independence, although commercial, cultural and military relations with Egypt are likely to become increasingly close, and the Sudan will probably tend to follow Egypt's lead in intraregional and foreign relations. The present Sudanese government probably wishes to maintain friendly relations with the UK but would probably refuse a formal treaty designed to maintain the UK's special position.

^{*} This section is taken from NIE 36-54, "Probable Developments in the Arab States", 7 September 1954.

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MIDDLE EAST AND AFRICA

Arab States

B-4.	SYRIA

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Political

The situation in Syria is extremely unstable. Although the overthrow of Shishakli in February 1954 led to a reinstitution of civilian government after four years of military dictatorships, the two major old-line parties, the Populist and Nationalist, have not been able to compromise their differences sufficiently to form a stable government. This inability to compromise is a reflection of the long-standing cleavage between the interests of Northern Syria, especially Aleppo (stronghold of the Populists), and those of Damascus (center of Nationalist strength). The army, which played a decisive role in politics from 1949 to 1954, has not yet become subordinated to civilian rule. While the army itself is divided into factions somewhat parallel to civilian political divisions, it could at any time carry out a successful coup. Another factor contributing to political instability is the fact that Syria is a prize in the contest between Arab states to expand their influence. Iraq has long desired to create a Syrian-Iraqi union under the Hashemite (Iraqi) crown, while Egypt and Saudi Arabia are vehemently opposed to this scheme and anxious to control Syria on their own behalf. In this situation extremist groups have increased their influence. The most significant of these is the left-wing, strongly anti-Western Arab Socialist-Resurrectionist Party (ASRP).

The Communists, although outlawed in 1947, number about 10,000. As a result of the September elections their Moscow-trained leader, Khalid Bakdash, became the first Communist ever elected to the Syrian Parliament. While they represent no serious threat at present, they will certainly profit from present instability.

The present coalition government of Prime Minister Asali came to power in February 1954 following the overthrow of the weak coalition of Faris al-Khuri, which had been in office only four months. The Asali government is a hodge-podge of Nationalists, independents and opportunists and one ASRP member. It received a confidence vote of only 66-53. Its chances of remaining long in office are poor. No successor is in sight, and at least for the immediate future Syria is likely to be internally unstable and subject to heavy

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external pressures. There is a slight chance that open Iraqi, Egyptian or Turkish intervention might take place if the struggle over Syria became sufficiently intense.

Since it came to power, the Asali government has been preoccupied with its role in Arab affairs. Under pressure from Egypt and Saudi Arabia, which had been instrumental in lining up its initial support, the government agreed "in principle" to join Egypt in setting up a new Arab military grouping from which, as originally envisaged, Iraq would be excluded. Since this plan was announced in early March 1955, however, Syria has been subjected to additional Turkish and Iraqi counterpressure, and appears unlikely to sign an anti-Iraqi pact.

Economic

Syria's predominantly agricultural economy is stable, though living standards are generally low. The government faces no immediately critical economic problems. Syria's most important natural resource is land, a large proportion of which remains undeveloped and unused due to lack of capital and enterprise.

Military

Syria's army consists of approximately 35,000 men; its equipment is mainly obsolescent. The army is capable of maintaining internal security, but its loyalty to any given regime is problematical. The navy and air force are very weak.

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MIDDLE EAST AND AFRICA

Arab States

B-5. LEBANON

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Lebanon continues to be one of the more stable of the Arab states, Lebanon's first president and virtual dictator, Bishara al Khouri, was finally forced to resign in 1952 as a result of growing opposition to his blatant corruption and nepotism, but the general pattern of government has remained much the same under his successor, Camille Chamoun. The circle of politicians who have dominated Lebanon since it won its independence in 1943 are still in the majority. Moreover, drastic political change has continued to be inhibited by fear of disturbing the balance between Christians and Moslems, by the lecal and sectarian loyalties of most politicians, and by consciousness of Lebanon's weakness vis-a-vis its neighbors.

The Communist Party, which is illegal, has a membership currently estimated at about 5-6,000; the total population is about 1,400,000.

Lebanon's foreign policy is ambivalent. Drawn toward the West by long-standing cultural, religious, and economic ties and by the fear among its Christians of being swallowed up in a Moslem "Greater Syria", Lebanon has frequently supported the West in the UN and almost certainly favors continued Western material and moral support for itself and the Near East as a whole. At the same time, however, its strong consciousness of being Arab and its fear of being considered out of step with its Moslem Arab neighbors has led it to follow the majority on most matters of Arab League interest. In the present Arab League split, Lebanon has characteristically attempted to play the role of mediator, despite its underlying sympathy for the Iraqi cause.

Lebanon's armed forces consisting of 9,200 men have virtually no capabilities except in connection with maintaining internal security.

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MIDDLE EAST AND AFRICA

Arab States

B-6.	IRAQ		

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Political

The government of Iraq is controlled by a relatively small group of wealthy and generally pro-Western political conservatives under the leadership of Prime Minister Nuri Said. Nuri, who has been the most powerful figure in Iraq for many years, commands an overwhelming majority in the parliament which was elected in September 1954.

Extremist forces present no immediate threat to internal security, although the desire to avoid trouble with the more violent anti-Western nationalists has often impelled the government to act cautiously. illegal Communist Party, which numbers about 10,000, has been hampered by vigorous police action for several years. It is generally ineffective, but has some strength among the port workers of Basra and among the increasing number of intelligentsia, particularly lawyers. Over the long run, the appeal of Communism is likely to grow.

Iraq's foreign policy is aimed at fostering its own leadership in the Arab world and at strengthening itself militarily against Israel and against the Soviet threat through ties with the West. In April 1954, Iraq became the first Arab state to accept US military aid. After a lengthy period of preliminary maneuvering, Nuri took the further step of signing a defense agreement with Turkey in January 1955 despite the strong opposition of Egypt and Saudi Arabia. Nuri, whose internal position appears to have been strengthened by Egyptian and Saudi attacks on him, has since consummated a deal with the UK under which the latter adhered to the Turkish-Iraqi Agreement and at the same time replaced the old Anglo-Iraqi Treaty of Alliance with a new agreement under which the UK would retain air base operating rights in Iraq but would turn the bases themselves over to Iraq. Pakistan is also expected to adhere to the Turkish-Iraqi Agreement in the near future.

Economic

Iraq's economic prospects are the brightest of any Arab state because of its large oil reserves and extensive tracts of unused but potentially arable land. Seventy percent of Iraq's oil revenues, expected to average

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about \$112,000,000 yearly over the next five years, are earmarked for the Iraq Development Board. Despite manifold political pressures, the Board appears to be moving ahead with a reasonable and far-sighted program. Over the long run, this program is capable of significantly improving economic conditions and thereby lessening some popular grievances. In the short term, however, the fact that most of the big development projects cannot produce rapid and easily perceived results will limit the program's effectiveness as a stabilizing factor.

Military

The Iraqi Army numbers 41,000. It is now receiving US equipment and its capabilities should improve. The air force has four fighter squadrons. There is no navy. The armed forces are capable of maintaining internal security and of resisting invasion from the Israeli Army or any Arab Army.

Estimate of Probable Developments

Iraq's traditional ruling group will probably remain in power at least during the next two or three years. Under Nuri Said's leadership the government will almost certainly steer a conservative course in domestic affairs, supporting a cautious development program while seeking to avoid political and social change. Nuri's conservative policies will probably intensify the opposition of moderate reform-minded elements and may increase the likelihood of mass pressure tactics by extremists of the right and left. Should the aging Nuri Said be removed from the scene, the effectiveness of the old ruling group would greatly decline.

Although Iraq will probably seek to patch up its differences with Egypt and Saudi Arabia, it will not allow this to affect its pro-Western defense policy, to which it is now firmly committed.

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MIDDLE EAST AND AFRICA

Arab States

B-7. JORDAN

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The small Arab kingdom of Jordan, which is almost completely lacking in developed resources, is dependent upon British subsidies for survival. On the surface, Jordan gives an impression of relative political stability. Under young King Hussain, who ascended the throne in May 1953, the Hashemite dynasty is secure in its position. Pro-British Prime Minister Tawfiq Abul Huda, who succeeded the weak Fawzi Mulqi in May 1954, is an able and forceful leader. He dissolved parliament in June and further tightened his control over the government by increasing the censorship of the press and restricting the activities of the newly-formed parties. Following the 16 October election of a predominantly pro-Abul Huda parliament, the premier formed a new cabinet on 24 October.

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Jordan is faced with increasing domestic political tensions and serious economic problems, mainly as a result of the tripling of Jordan's population following the Palestine war. The one and one-half million population is now made up, in roughly equal parts, of the original Transjordanian population, West Jordanians in that part of Palestine occupied by the Arab Legion in the war with Israel, and disgruntled Arab refugees from Israeli territory, most of whom still live in refugee camps. This division in population is reflected in persistent efforts by the embittered and politically sophisticated former Palestinian element to gain increased power at the expense of the old-line Transjordanians. The country's economy has also been seriously strained by the influx of population and other economic repercussions of the Palestine war. In this atmosphere, the Communists have gained in strength, despite government repression.

The most serious problem facing the government in Amman is its deteriorating relationship with Israel. Border tension between the two countries has been high almost continually since the Israeli attack on Qibya in October 1953. The Israeli attack on Beit Liqya in early September 1954 further complicated the situation and made it more difficult for the British-trained Arab Legion and the less disciplined National Guard to exercise restraint in the border areas. Jordan's relations with the other Arab states are generally good.

The Jordanian Arab Legion, largely officered and financed by Britain, has a strength of some 18,700 men. It is well-trained and well-equipped by Middle East standards but could probably not by itself successfully resist an Israeli invasion of West Jordan.

MIDDLE EAST AND AFRICA

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Arab States

B-8.	SAUDI	ARABIA

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Political

Since King Saud acceded to the throne, after the death of Ibn Saud on 9 November 1953, there has been considerable activity in foreign affairs but few marked changes within the country.

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for revenue, and growing popular resentment of royal and official profligacy.

To a greater extent than his father, King Saud has sought to take advantage of Saudi Arabia's peculiar position in the Moslem world to exert influence on other Moslem and Arab states. The Saudi dynasty's custody of the Moslem holy places and its uncompromisingly Moslem character give it prestige among the faithful outside of Saudi Arabia. In addition, Saud has continued his father's policy of subsidizing elements in other Arab states to work for Saudi interests.

Saud has shown himself generally less friendly toward the West than his father was. US-Saudi relations deteriorated in the past year through Saud's rejection of US military grant aid in January 1954, his strong opposition to US Middle East defense efforts, and his termination of the US Point IV program in June. In addition, he is pressing the Arabian-American Oil Company, his principal source of income, for greater royalties and has signed an agreement with A. S. Onassis, the Greek shipping magnate, granting the latter the right to transport a proportion of Saudi oil, which violates the terms of ARAMCO's concession. However, there has been some improvement in the Saudi attitude toward the US since late August, partly as a result of Egyptian and Pakistani representations to the King.

Relations with Britain have improved with the signing in July 1954 of the Anglo-Saudi agreement for arbitration of the long-disputed Buraimi border problem. Ties with West Germany, which had been growing in recent years, are currently strained as a result of Saudi cancellation in August of the contract with the German engineering and construction firm, GOVENCO, which had replaced an American firm only last January. Saud has been active in the politics of the Arab states, and has sought to strengthen Saudi ties with Egypt and to develop influence in Jordan, Syria, and Lebanon. The King continues to be suspicious of Iraq, both for reasons of dynastic rivalry and because of Iraq's ties with the West. The Saudis fear that Arab participation in any defense system for the area, excepting the Arab Collective Security Pact, would undermine their influence in Arab affairs.

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Economic

Despite an estimated 1953 income in excess of \$245,000,000, mostly derived from ARAMCO's royalty and tax payments. Saudi finances verge on bankruptcy.

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Military

Saudi Arabia's army of 12,000 and tribal miltia of 85,000 are capable only of maintaining internal security.

Estimate of Probable Developments*

King Saud can probably retain the support of the numerous royal princes, chief officials, and tribal leaders

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cause increasing problems for Saud's tradition-minded government. If the general deterioration of US-Saudi relations should continue, the US Government might have difficulties when the Dhahran airbase agreement comes up for renewal in 1956 and ARAMCO might find it difficult to maintain satisfactory relations with the Saudi Government. Saudi relations with the UK will probably improve as a result of the recent agreement on a solution for the Buraimi boundary dispute.

1 October 1954

^{*} This section is based on NIE 36-54, "Probable Developments in the Arab States", 7 September 1954.

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MIDDLE EAST AND AFRICA

B -9 .	LIBYA

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Political

Libya, independent since December 1951, has thus far been unable to establish firm foundations for political and economic stability. The poverty and economic underdevelopment of the country, the unresolved Tripolitanian-Cyrenaican differences, the weakness of the parliament and the bureaucracy, and the limited support for the ruling dynasty, all make for instability. Most important of these factors is the continued cleavage between the Cyrenaicans, who presently dominate the federal government, and the more advanced and numerous Tripolitanians, who constitute two-thirds of the population. However, the Tripolitanians have not united to form a strong opposition party, and they are not able to challenge the present regime.

Despite his failure thus far to resolve provincial differences and unite his kingdom, King Idris is the strongest political force in Libya. The incapacity of the Libyan Parliament, and the political indifference of the people, have strengthened the King's hand.

Inbya's inclusion in the Arab League early in 1953 has not resulted in any fundamental change in its pro-Western orientation. Libya uniformly endorses the Arab League's pronouncements on Israel and on North African nationalism, but plays only a secondary role in the League.

US-Libyan air base agreements will provide Libya \$40 million over the 20-year period of the agreement, with \$4 million to be paid for the use of the base each year from 1954 through 1960, and one million dollars annually thereafter. The presence of a small number of French troops in the Fezzan continues to exacerbate Franco-Libyan relations.

Economic

The Libyan economy relies heavily upon agriculture to maintain present bare subsistence standards, and is extremely limited in other resources. Large-scale exploration for oil is about to be

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This section, with appropriate updating, contains portions of NIE 71-54. "Probable Developments in North Africa," 31 August 1954.

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undertaken, but the prospects for extensive discoveries remain unknown. Consequently, Libya has to rely almost wholly upon foreign financial aid and technical assistance in order to carry out even a minimum development program. The UK at present provides over \$10 million annually to Libya, which also receives some technical aid from the UN and the US.

Estimate of Probable Developments

The transformation of the Libyan government from a constitutional to an absolute monarchy will probably continue over the next few years, provided King Idris remains on the throne. However, unless the King survives long enough to consolidate his power, his death might be followed by a period of intrigues during which the kingdom might be dismembered. Such increased internal instability might impede, but almost certainly would not preclude, use of Libyan bases by the US and the UK.

Strong Western influence in Libya, based mainly upon direct financial assistance, is likely to persist for at least the next several years, even if Libya should be dismembered during that period. On the other hand, UK influence has declined appreciably and British policy at present is to remain aloof from Libyan polities. Should the UK continue that policy, a partial vacuum might develop. However, as a result of its need to station in Libya some troops formerly in the Suez Zone, the UK might increase its interest in Libyan affairs. At the same time, King Idris has indicated that he would prefer the US to assume the role of "protector".

Because of strong resentment over French influence in the province of Fezzan and French repression in Morocco and Tunisia, relations with France will continue to be poor.

Growing Libyan ties with Egypt constitute an increasing challenge to the Western position. Nevertheless, Libya will remain fearful of Egypt's greater power. Libya has recently developed diplomatic and military connections with Turkey. Further growth of Turkish influence would probably help to strengthen Libya's pro-Western orientation. In the long run, however, Libya is likely to follow the lead of the other Arab states.

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MIDDLE EAST AND AFRICA

C.	ISRAEL			

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Political

Israel is politically stable. The present coalition government, dominated by the Mapai Party, has been in office under Prime Minister Sharett since January 1954. It is similar in composition to its predecessor, which, under Ben Gurion, had governed Israel for several years. The most notable recent development has been the return to active politics of Ben Gurion, who recently became Defense Minister. General elections are scheduled to take place in July 1955.

Although there is a certain amount of friction over economic and

educational policy between Mapai and other members of the coalition, all coalition parties are in general agreement on foreign policy,

Israeli leaders have acknowledged their special economic and other ties with the West but have sought to avoid declaring themselves officially on the struggle between the Free World and the Soviet Bloc, probably because of their desire to open the way for emigration of Jews from the Soviet Bloc. Diplomatic relations have been re-established between Israel and the USSR, and a barter trade deal was concluded early in 1954.

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Economic

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Israel's economic situation is precarious. Despite recent progress in the reorganization of state finances and increased industrial and agriculture efficiency, the gap between Israel's means and Israel's expenditures remains large. Israel's experts pay for only 30 percent of its imports, and the country produces only about half its consumption requirements.

Military

Israel's standing army of 69,000, trained reserve of 145,000, and small but competent air force and navy are capable of defending Israel against an attack by the combined military forces of all the Arab states. If Israel attacked the Arab states, it could probably quickly make important territorial gains.

^{*} This estimate represents an updating of NIE-92, "Israel", 18 August 1953 and portions of NIE 30-54, "Prospects for Creation of a Middle East Defense Grouping and Probable Consequences of Such a Development", 22 June 1954. Israeli relations with the Arab states are to be reexamined in an NIE on "The Outlook for Arab-Israeli Relations" scheduled for second quarter 1955 production.

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Israel will probably remain officially neutral in the East-West struggle, at least in the absence of substantial military aid and security commitments from the West.

Israel will probably continue to be governed by coalitions in which the Mapai Party is dominant and which will be able to control the country without departing from the established democratic system. Under crisis conditions, however, the government would probably take forceful measures to maintain control.

Israel can maintain precarious solvency if substantial foreign aid continues to be available. Sharp curtailment of foreign aid would require further downward revision of the investment program and of military preparedness expenditures, and would result in a lowered standard of living. Israel would probably make every effort to maintain the present rate of military expenditures. Renewed mass immigration or outright warfare with the Arab states would require increased funds from foreign sources to prevent economic collapse.

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MIDDLE EAST AND AFRICA

D.	TURKEY				

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Political-

Turkey has the most stable government and the most powerful military force in the Middle East. It is firmly committed to a pro-Western position. Both the incumbent Democratic Party, which received an overwhelming vote of confidence (493 out of 541 deputies) in the May 1954 general elections, and the opposition Popular Republicans favor a foreign policy of vigorous opposition to the USSR, active participation in NATO, and support for the UN. Domestic policy differences between the two parties are not great, though government harassment of the opposition party and press gives the latter genuine grievances. The Turkish security forces have diligently suppressed what little pro-Communist activity has appeared.

Turkey has been making a vigorous efforts to develop anti-Communist defense arrangements supplementary to NATO in both the Balkan and Middle East areas. Despite Yugoslav reluctance, it is pressing to develop military coordination between NATO and the Balkan Pact, first signed with Greece and Yugoslavia in February 1953 and strengthened by military commitments in the Bled Treaty of August 1954. Partly in response to US urging, Turkey has also taken the lead in laying the groundwork for Middle East collective defense through the Turkish-Pakistani Agreement of April 1954 and the Turkish-Iraqi Agreement of February 1955. It is continuing its efforts to draw the Arab states into regional defense arrangements despite acrimonious opposition from Egypt, Syria and Saudi Arabia.

Economic

Large-scale US economic and technical aid, totalling more than \$350 million from 1948 through FY 1955, has resulted in significant economic gains, notably in the fields of grain and cotton production, mining of chromite and copper, and improvement of Turkey's weak road and rail network. However, these gains have been seriously jeopardized by the government's insistence on pressing ahead with its ambitious development program, meanwhile continuing heavy military expenditures, without regard for the economic consequences. As a result of these policies, together with a crop failure in 1954, Turkey has a serious balance of payments deficit, a burdensome foreign debt has accumulated, and serious inflation has developed. Thus far the government has been loath to face up to these

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problems, in the hope that increased US aid would be forthcoming to see it through.

If Turkey effectively deals with its serious immediate problems, its longer range economic prospects will be good. Turkey's natural resources and manpower are adequate to sustain a balanced, expanding economy which would fit in well with the over-allWestern European trading pattern. The government is trying hard to attract for eign capital although its efforts continue to be hampered by for eign investors' distrust of lingering etatism, and the financial and technical inexperience which still plagues Turkey.

Military

Turkey will probably continue to press for improvement of Western military defense despite continuing protests from the USSR. In addition to its active NATO participation, Turkey has taken part in mutual defense planning with Greece and Yugoslavia under the Balkan Pact.

Turkey's military establishment comprises a 280,000-man army organized into 19 divisions, a small navy and air force. Although modernization and standardization of the Turkish Army's equipment and procedures are still incomplete, that army has benefited greatly from continuing US aid and advice and is estimated to be capable of carrying out effective delaying action against a Soviet Bloc invasion. Turkey's military assets also include a number of new airfields which are being constructed under NATO auspices and which are capable of supporting allied long-range bombing operations.

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MIDDLE EAST AND AFRICA

F. FRENCH NORTH AFRICA*
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<u>General</u>

North Africa is of major strategic importance chiefly because of its geographic location and its extensive military base network. Furthermore for France it is an important source of military manpower; it is also used extensively as a training area.

The chief problem in North Africa is the growing state of tension created by the unresolved conflict between France and the rapidly growing nationalist movement in French possessions, especially in Tunisia and Morocco.

Although the French protectorates of Tunisia and Morocco are nominally sovereign states under their own native rulers, the Bey and the Sultan, in practice, France controls and administers each country. Algeria is administered as an integral part of France. French security control of the three regions is maintained by a garrison of some 141,000 troops and 6,500 gendarmerie.

The French Government and the roughly 1,400,000 residents in North Africa of French descent (colons) dominate the administration and the economy in all three areas. A large majority of these colons strongly oppose concessions to local nationalists. They have considerable influence and thus constitute a major impediment to the formation and implementation of a liberal French policy for North Africa.

The nationalist movement in North Africa has grown rapidly since the end of World War II, especially in Tunisia and Morocco; in Algeria nationalist sentiment is less intense. Especially among the small educated classes, there has been a steady increase in political consciousness and sense of national identity. The nationalists in general look toward ultimate independence, but

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^{*} This section, with appropriate updating, is a summary of NIE 71-54, "Probable Developments in North Africa," 31 August 1954. Although many of the conclusions in this section apply to Libya, that country is handled separately in Section V-B-9.

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they are split into moderate and extremist factions which vary in their immediate demands. However, the nationalist parties in the protectorates are developing a considerable degree of organization, especially in Tunisia, although the leading parties have been forced to operate on a clandestine basis.

Although nationalism has nowhere developed the strength to present a serious threat to over-all French control, the inability of moderate nationalists in either Tunisia or Morocco to secure substantial concessions from the French has led to the growth of extremism and to terrorist activities. The nationalists have been encouraged by developments in Iran and Egypt. Arab-Asian efforts to secure them a UN hearing have served as a major stimulus to their cause. Furthermore, France's defeat and loss of prestige in Indochina have encouraged a growing number of nationalists to regard extremist tactics as the path to independence.

The Communist Parties of French North Africa maintain close liaison with, and are directed and partially financed by the French Communist Party. The Communist aim since 1946 has been the formation of a united front with the nationalists, but to date the small North African Communist Parties (about 15,000 members in Algeria and 2,000 in each of the protectorates) have had only limited influence on the nationalist movements. With but little exception, the known nationalist leaders have consistently refused to accept any political working relationship.

Direct Soviet activity in North Africa remains limited. However, greater Communist interest in the area is indicated by the recent inauguration of a new quasi-clandestine radio station which transmits in Arabic to North Africa via Budapest.

French Morocco

French difficulties in developing a rapprochement with the nationalists have been greatly increased by the continuing controversy over France's deposition of the popular, pro-nationalist Sultan Mohammed V in the summer of 1953. The present Sultan has not been accepted by most Moroccans. Moreover, the reforms imposed on Morocco by the French after the Sultan's deposition have been discredited. On the other hand, the colons and the Berber chieftain, El Glaoui, the Pasha of Marrakech, are demanding that France stand firm with the present Sultan and refuse concessions to the nationalists. Much more numerous than their compatriots in Tunisia, the colons in Morocco also play a larger role in French control of the area.

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Support for the Istiqlal, the leading Moroccan nationalist party, until recently consisted of an educated middle-class minority, with a popular base largely in urban laboring groups. The Istiqlal is now gaining support in the countryside. In general, however, the illiterate rural bulk of the population, while it has been aroused by such a dramatic event as the Sultan's deposition, is not easily brought into organized opposition.

Tunisia

The native society in Tunisia is politically and culturally the most advanced in North Africa and has been allowed some participation in government. The principal Tunisian nationalist party, the Neo-Destour, has long had substantial support in rural as well as urban areas, and appears to have a large measure of control over nationalist activities. The Bey is a much less controversial factor in the nationalist problem than the Sultan of Morocco. Thus the nationalist problem in Tunisia, although as acute as that in Morocco, is less complex and lends itself more readily to negotiation.

The French government is dealing first with Tunisia. The program offered Tunisia is based upon: (a) the grant of internal autonomy, to be implemented within a determinate period; (b) insistence on the maintenance of France's control over foreign affairs, defense, and for some time, finances; and (c) guarantees to protect the position of the colons. The Tunisian government, including several Neo-Destour ministers, is negotiating the implementation of this program with the French.

Algeria

Outbreaks of nationalist violence occurred late in 1954 in Algeria for the first time since 1945. Initially widespread and coordinated, terrorist activities now appear to be largely confined to the Aures mountain area in the eastern portion of the country, where counteraction by substantial French forces is continuing. The French have taken steps to tighten security throughout Algeria, while at the same time advancing proposals for implementing the long-dormant reforms envisaged in the Algerian Statute of 1947. The Algerian nationalists, much weaker than their counterparts in Tunisia and Morocco, on occasion cooperate with the Communists on tactical issues, but the latter have failed in frequent attempts to bring about a closer relationship.

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Spanish Morocco and Tangier

Close Spanish controls and some 50,000-60,000 troops maintain order in Spanish Morocco. The nationalist Islah Party has developed some strength but lacks widely based support. As part of its policy of wooing the Arab states and embarrassing France. Spain has made gestures favorable to native nationalism, but has not materially relaxed its control.

Spain's demands for restoration of its prewar role in the administration of the International Zone of Tangier have been largely satisfied by the other participating powers. However, Tangier is likely to remain an arena for French and Spanish disagreements.

Economic

The predominantly agricultural economies of North Africa are relatively poor and underdeveloped, and the area's resources developed thus far are not of major economic importance except to France. The chief minerals -- phosphates, iron ore, manganese, lead, zinc -- constitute a relatively small portion of Free World supplies but are of importance to France. About 10 percent of French imports (mainly wines, cereals, vegetables, vegetable oils, and minerals) come from North Africa, while about 20 percent of French exports go to that area. France provides about 70 percent of North Africa's imports and receives about 60 percent of its exports. On the other hand, French North Africa's postwar budgetary and trade deficits have been a burden on France. The French have developed excellent port facilities and a good transport network.

Estimate of Probable Developments

The nature of ties between France and her North African possessions and France's determination to maintain these ties make extremely difficult any reconciliation between French interests and nationalist desires for complete independence. At the same time, the French recognize the necessity for further reforms, and over the next few years will probably grant a degree of internal autonomy, first in Tunisia and later in Morocco. However, in the short term, the French will now make concessions which will enganger their strategic control of the area or deprive the colons of their privileged economic position.

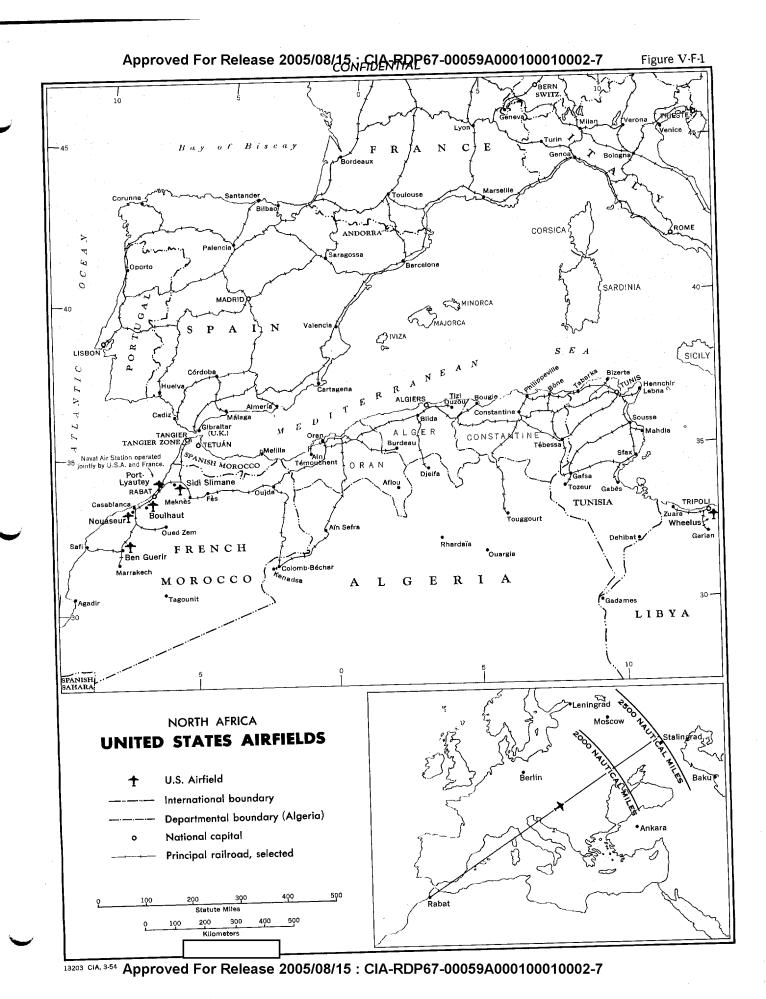
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Despite any short-term accommodation between the French and the Tunisian and Moroccan nationalists, it is almost certain that opposition to remaining French control will continue to grow at an increasing rate, although temporary periods of quiescence will occur. Limited and gradual French reform programs are unlikely to reduce tension more than temporarily or to keep pace with increasing nationalist demands. Extremists are likely to gain effective control over the majority of politically active Tunisians and Moroccans within the next few years, except in the unlikely event that moderate nationalists are able through negotiations to make progress clearly leading toward ultimate independence for the two protectorates.

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MIDDLE EAST AND AFRICA

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<u>Political</u>

South Africa's fundamental problems arise primarily from the conflicting aspirations and outlook of the Union's heterogeneous population elements. There is a basic division between the dominant white minority of 2.6 million and the 10 million Africans, Indians, and mixed breeds. In addition the whites themselves are divided into two hostile groups: the Nationalists, predominantly Afrikaners of Dutch descent, and the opposition, representing a more cosmopolitan outlook and including nearly all the British element. During the tenure of the Afrikaner Nationalist government of Dr. Malan and his successor, J. G. Strijdom, these basic conflicts have become acute.

Although the Nationalist government increased its parliamentary majority in the April 1953 general elections, it did not receive a majority of the popular vote nor did it obtain the two-thirds margin required by the South African constitution to enact a part of its extreme racial segregation program -- the removal of the mixed breed voters from the common electoral rolls. Strijdom's government has reiterated its determination to overcome this constitutional obstacle. Since the mixed breeds regularly vote against the Nationalists, the opposition views the Nationalists; aim not only as threatening constitutional government but also as revealing their intention to entrench themselves permanently in power. This issue has therefore been the focus of hostility between the two white groups. Another issue capable of further inflaming relations between white groups is the Nationalist goal of eventually establishing the Union as a republic. Some strongly pro-British elements in Natal have threatened secession if the Nationalists move in this direction.

Following their defeat in the elections, opposition elements generally appear to be demoralized and disunited. In addition to the defection of several politicians from its extreme right, the main opposition party, the United Party of J. Strauss, suffered the loss of two other groups — the federationists of Natal and the small circle of liberals who favor equal political rights for non-whites — which have organized respectively the Union Federal Party and the Liberal Party. However, in future elections these anti-nationalist parties and the small Labor Party will probably conclude pacts to minimize the competition among themselves.

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The small South African Communist Party publicly dissolved itself in June 1950, shortly before the parliament outlawed it. Communists in the Union number an estimated 2,000 - 3,000, and about 25 percent of them are white. There is no evidence that they are yet making significant advances.

The long-range threat to stability is the growing hostility of non-whites toward whites, which has been sharply stimulated by the severe repressive actions of the Nationalist government. While native leaders, who have been cooperating with leftist Indian leaders in a passive resistance campaign, are at present intimidated and restricted in their activities by severely punitive legislation, pressure from extremists within their ranks will probably force them to adopt new courses of action to further their program for overthrowing white supremacy.

Relations with the UK are likely to continue to be strained by the Nationalist government's efforts to reopen negotiations with the UK for the transfer of the British-administered High Commission Territories, Swaziland, Basutoland, and Bechuanaland, which are contiguous to or within the Union. Almost certainly no British Parliament would approve such a transfer so long as South Africa's racial policies remain unchanged.

Economic

South Africa is generally prosperous. Agricultural production was exceptionally favorable and sales of industrial minerals reached new heights in 1953. The rapid development of new gold mines suggests that the key gold industry will continue to prosper. Balance of payments difficulties due to shortage of foreign investment capital and the usual adverse trading balance continue to cause some concern. However, large revenues from uranium and increased gold production within the next few years, should ease South Africa's payments difficulties.

The strategic economic importance of the Union of South Africa arises primarily from its large-scale production of chromite, manganese, and asbestos. From the Union come about one-quarter of the West's supply of chromite (including practically all chemical-grade chromite ore), one-quarter of total Western manganese supply, and the entire Western supply of the strategic grades of amosite asbestos. The Union is also becoming a major source of uranium.

Military

South Africa's armed forces number only about 6,400. They are poorly trained, and inadequately equipped, though the South African

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military potential, as demonstrated in the last two wars, is not inconsiderable. South Africa has promised the UK to deliver one armored division for Middle East defense within three months after the outbreak of war. However, if war should break out now, South Africa could not provide the division in less than one year, even with prompt, substantial outside military aid.

Estimate of Probable Developments*

Over the long run the repressive racial policy of the whites will almost certainly lead to rebellion of the non-white population. Communist influence, presently small, will probably play an increasing part in stimulating unrest.

Racial tensions in South Africa will almost certainly have an increasingly adverse effect on race relations elsewhere in Africa and on the relations of India and the rest of Asia with the West. If the UN intensifies its criticisms of the Union's racial policy, the Union may carry out its threat to withdraw from the UN.

The tensions in South Africa are unlikely for the next several years to interfere seriously with the export of strategic materials, but they may limit the Union's ability to dispatch forces outside the country in event of war. In the longer run, when rising racial tensions erupt into widespread disorders, the outflow of strategic materials will be hampered or even halted.

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^{*} This section is a summary of NIE-72, "Probable Developments in the Union of South Africa", 20 October 1952, which remains valid in essential respects.

MIDDLE EAST AND AFRICA

H. TROPICAL AFRICA* (See map following these pages)

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Present Situation

Tropical Africa's nearly 8 million square miles (roughly the size of North America) and approximately 135 million people are distributed among more than 30 separate territories administered (except for South West Africa and independent Liberia and Ethiopia) by 6 European powers. One of the world's least developed areas, Tropical Africa is in process of economic, social, and political transformation, although the pace of this development varies widely in different territories. Nearly all African societies are in relatively rapid transition from isolated subsistence to money economies, and a few are rapidly moving from tribal organization to national states on the Western model. Increasing Western investment in Tropical Africa and the area's expanding contact with Western culture, especially in the postwar period, have upset primitive social and economic organization and are producing native aspirations largely incompatible with colonial status. Growing tension and unrest are gradually weakening European control in certain areas and pose a prospective threat to Free World access to Tropical Africa's resources. The colonial powers are confronted with the major problems of making the adjustments necessary to allay spreading African discontent, and of winning the cooperation of native regimes once they come to power, while at the same time preserving the degree of control necessary to prevent disorders and to continue the flow of raw materials necessary for the wellbeing of both Africa and the West.

In Kenya, land hunger and the tensions produced in African society by the impact of European and Indian immigration have given rise to the Mau Mau terrorist movement. Although Mau Mau has been almost entirely confined to members of the Kikuyu tribe, 1.25 million of Kenya's 5.5 million Africans, its guerrilla tactics have disorganized the normal life of the territory. measures taken by the British and Kenya governments since the emergency was declared in October 1952 have succeeded in reducing Mau Mau activities, and organized terrorism will almost certainly be suppressed, but a legacy of racial bitterness and suspicion has been created.

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Potential unrest also exists in British Central Africa, where a plan for the federation of Southern Rhodesia, Northern Rhodesia, and Nyasaland was recently implemented. This long discussed scheme is designed to form, through black-white partnership, a buffer against the Union of South Africa and to give the area a better economic balance. Although supported by a majority of Central Africa's 200,000 whites, federation was opposed by native leaders.

British West Africa -- especially the Gold Coast and Nigeria -- is following the ideal course of political development from the African nationalist viewpoint aided by the absence of a white settler community. Here political power is rapidly being turned over to native leaders. The process is running smoothly in the Gold Coast, which now possesses almost as much practical independence as it can absorb until trained Africans replace "expatriate" white advisers. In Nigeria, however, religious and cultural differences between the northern and southern regions threaten a breakdown of constitutional government. It is unlikely that Nigeria's internal dissensions will be resolved by 1956, the date which the southern nationalists have set for full independence. The two major political problems faced by the West Africans are how to share power among themselves, and how to exercise it.

Strategic Facilities and Resources

From a military standpoint, Africa lies athwart US communication lines with the Near, Middle, and Far East. A chain of airfields spans Africa from West to East. However, transcontinental ground communications pose a serious problem and good natural harbors are scarce.

The economic importance of Africa to the US lies in its strategic materials, particularly the minerals required for Western defense. The principal mineral-producing area is a narrow belt 1,000 miles in length, stretching through central Africa from the Belgian Congo through the Rhodesias to the Union of South Africa.

Within this belt are important sources of asbestos, chromite, cobalt, copper, corundum, diamonds, lead, manganese, tantalum, uranium, vanadium, and zinc. Increases in the export of many of these minerals are at present frustrated by low rail capacity to the seaports. Other important deposits are as follows: cobalt, lead, manganese, and zinc in French North Africa; columbite, chromite, diamonds, manganese, and tin in British West Africa; kyanite in Kenya; and mica and graphite in Madagascar.

Important agricultural exports are the palm oils and cocoa of the Gulf of Guinea area, and the sisal of British Fast Africa.

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Estimate of Probable Developments

The strategic importance of Tropical Africa arises chiefly from its supply of such materials as uranium, cobalt, diamonds, and columbite; from its location with respect to sea and air lanes in the South Atlantic, Indian Ocean, and Red Sea areas; and from its potential as a site for LOC, staging, and training facilities.

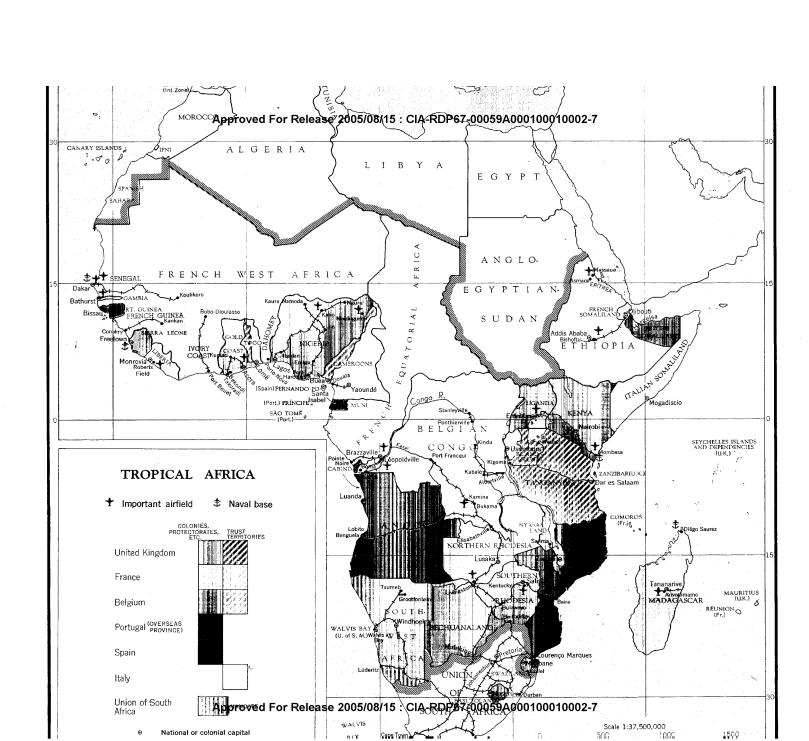
The chief problem in Tropical Africa is that increasing African discontent and demands for self-government, although varying widely in different colonial dependencies, will gradually weaken European control and pose a threat to Western access to Tropical Africa's strategic resources. Over a long period there will almost certainly be an uneven and uneasy transition from colonial to self-rule.

Despite the present weakness of the Communists, their influence and numerical strength will increase. As African unrest grows, various African groups are likely to welcome assistance from any quarter. Communist efforts in the long run probably will have greatest effect upon the more advanced Africans — young intellectuals, nationalist activists, and labor group members — to whom Communism might appear as an aid in weakening European control.

The breakdown or overthrow of existing authority is nowhere imminent in Tropical Africa. The colonial powers will probably undertake the policy adjustments and retain the security capabilities necessary to prevent discontent from erupting in large-scale revolt over at least the next decade. However, such adjustments probably will not keep pace with African demands, and varying degrees of unrest and even sporadic violence are likely, especially in areas of heavy white settlement. Emerging selfgoverning territories, such as the Gold Coast and Nigeria, probably will also experience considerable instability.

Prospective disorders in Tropical Africa probably will require additional commitments of European forces, but not to a degree which would seriously burden the metropoles. Such unrest probably will hamper but will not prevent Western use of military facilities in event of war.

In the short run, Tropical African exports of strategic and essential raw materials will increase as development programs are completed. Over the longer run, however, disorder and unrest are likely to impair the production and transport of such materials. Of the important producing areas, the Belgian Congo probably will be the most stable, while British West Africa and probably British Central Africa will become less dependable sources of supply.



MIDDLE EAST AND AFRICA

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I.	GREECE *	

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Political

Greece has seldom enjoyed real political and economic stability. Because of its strategic location, it has been repeatedly subjected to great power ambitions and influences. Greek politics have reflected these influences. Since the inauguration of the US aid program in 1947, the majority of Greeks have looked to the US for support and guidance, although British influence is still important.

Since the victory of Field Marshal Papagos' Greek Rally in the 1952 elections, the Greek Government has had a degree of popular support and political effectiveness unusual since World War I. By and large, the Rally has made a good record during its two years in office and Papagos has been generally successful in holding his heterogeneous following together.

However, within the last year the Rally's cohesiveness has deteriorated to some extent; its degree of popular support has probably also decreased. In April 1954, Spyros Markezinis, who had been chiefly responsible for organizing the Rally, resigned from the cabinet as the result of growing personal friction with Papagos. Recently he and 23 followers withdrew from the Rally and formed their own party. There have since been continuing indications of further friction and dissatisfaction within the Rally, although Papagos still retains an overwhelming parliamentary majority (about twothirds) and there is no indication that his control over the mass of Rally deputies has been seriously weakened.

Meanwhile the parliamentary opposition has been having troubles of its own. The left-centrist Progressive Union of the Center (EPEK) disintegrated after the death of its leader General Plastiras in 1953. The Liberal contingent in Parliament has weak leadership. Sophocles Venizelos, former head of the Liberal Party, is now attempting to form a coalition of the opposition parties in Parliament. Increasing cohesion among the left-of-center opposition was revealed in the November 1954 municipal elections, when five out of six of the principal urban constituencies were captured by left-of-center coalition tickets supported by the Communists.

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^{*} This section is an abstract of NIE 32-55, "The Outlook for Greece", 18 January 1955.

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The Greek Communist Party (KKE) outlawed in 1947, has been severely hampered by government antisubversive measures and its present membership is probably no more than 35,000. The KKE has, however, gained de facto recognition in Greek politics through the Communist-controlled United Democratic Left (EDA), which has consistently polled 10-12 percent of the popular vote through most of the postwar period.

Greece continues to regard maintenance of US support as the cornerstone of its foreign policy; it also attaches great importance to collective security safeguards such as the UN, NATO and the Balkan Alliance. Relations with the Soviet Bloc have gradually improved since their nadir during the civil war in the late 1940's. The only active source of major international friction for Greece is the enosis (union of Cyprus with Greece) issue. Although in this connection some popular feeling has been aroused against the US, the UK, and Turkey, no significant weakening of Greece's ties with the countries has resulted.

Economic

Greece is the poorest country in free Europe with a GNP of only about \$1.8 billion. Despite a high rate of emigration, overpopulation has been a constant problem and the Greek standard of living remains lower than that of any other NATO country, including Turkey. The basic source of Greek weakness and instability lies in the inadequacy of its arable land and other natural resources. Although 60 percent of the population of approximately 8 million lives on the land, only about a fourth of Greece's territory can be used for farming or grazing and much of this soil is of poor quality.

With the virtual completion of the \$1.2 billion US economic rehabilitation program the economy has shown considerable increase in productivity and within the past two years has achieved a reasonable degree of stability. The foreign exchange deficit has been sharply reduced. However, the cost of living remains high. Early in 1954 the government embarked on an ambitious \$236 million economic development program. While Greece appears likely to succeed in meeting the internal financial requirements of the program, it is having considerable difficulty in acquiring the necessary foreign capital -- which represents more than half of total needs -- because of Greece's \$200 million bonded indebtedness.

Military

Greece's position in the eastern Mediterranean and the Balkan area gives it a strategic importance out of proportion to its own military

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strength. Its armed forces which are generally loyal and reliable, are sizable for a small country, and make a significant contribution to NATO. While some Communist infiltration almost pertainly exists in all the services, it appears to be a significant problem only in the air force.

The Greek Army, numbering 105,000 men and organized into four combatready divisions, is primarily a defensive force. The peacetime army is capable of maintaining internal security but its capabilities against any other external enemy except Albania are limited to delaying action and local counterattacks. With the army expanded to its wartime strength of 12 divisions, Greece could defend the central and southern parts of the country against an attack by Bulgaria alone. Without outside reinforcements and support Greece would not be capable of sustained resistance against a full-scale attack involving Soviet forces. The Royal Hellenic Navy has one cruiser, three destroyers, four submarines, and linescort vessels. It has very limited capabilities. The Royal Hellenic Air Force (RHAF) is a small compact tactical air force of high combat readiness. It consists of six fighter bomber squadrons (F-84's), one reconnaissance squadron, two transport squadrons, and 300-400 miscellaneous types. Its most serious operational deficiency is in air defense. In an effort to offset this deficiency three intercept day fighter squadrons (F-86's) are being organized and probably will become operational by the end of 1955. The RHAF continues to suffer from factionalism and political jockeying among the officers.

Estimate of Probable Developments

So long as Papages retains active leadership, we believe that the present Greek Rally government will remain in power at least up to the 1956 elections. Although some deterioration of the Rally's cohesiveness and prestige has recently taken place, it is unlikely that sufficient Rally deputies will defect to overturn Papagos' now comfortable majority. On the basis of present indications if Papagos is still active and on the political scene, the Rally will probably win the 1956 elections, though as compared with its 1952 showing it will inevitably suffer some loss of electoral strength.

If Papagos, who is now 72, should die or become incapacitated the Rally would soon fall apart and the centrist Liberal Party would replace it as the strongest political grouping. Since even the Liberals would lack a parliamentary majority in their own right and would probably be unable to gain one in new elections, the eventual outcome would probably be a series of unstable coalition governments marked by political fragmentation and an increase both in Palace influence and in Communist opportunities for political maneuver. Under such circumstances, there might be an attempt at dictatorship by the secret military society IDEA, although this would depend to a large degree on IDEA's estimate of the US reaction.

The Greek economy will probably remain fairly stable over the next three or four years, despite a decline in US aid; some modest improvements in

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production and in Greece's foreign exchange position may take place. It is improbable in the longer term that a politically acceptable standard of living can be maintained without some form of economic assistance unless there is a reduction in Greece's contribution to the defense budget.

Regardless of internal political developments, the US is likely to retain its present predominant influence in Greece over the next few years although Greek responsiveness may decline somewhat as a result of the progressive reduction of US aid and the US position on enosis. Although the enosis issue is likely to be a continuing irritant in Greek relations with the UK, US and Turkey, it is unlikely that Greece's alliance with these powers will be strained by this or any other issue. Greece's relations with Turkey, Yugoslavia and Italy will probably further improve to some extent; additional progress is likely to be made in development of a system for coordinated defense of the Balkan area. Greek relations with its non-Satellite neighbors will probably continue to improve slowly, though underlying suspicions and conflicts of interest will remain.

Although the development of Greek military capabilities is progressing satisfactorily, growing Greek reluctance to maintaining present levels of military expenditures is likely to make the maintenance of a military establishment meeting NATO and US requirements depend increasingly on assistance for meeting military expenses.

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EUROPE

A.	THE OUT	COOK	FOR	western	EUROPE
	OVER	THE	NEXT	DECADE	*

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Western Europe has staged a remarkable recovery from World War II, but its economic and political foundations remain fragile and Western Europe will be troubled by domestic divisions and by conflicts of national interest, especially between France and Germany. The course of events within Western Europe over the next decade will be largely determined by developments within the UK, France, Italy, and West Germany, by relationships among these four states, and by the reactions of these states to developments elsewhere in the world.

If world economic conditions remain reasonably favorable, Western Europe will probably experience moderate economic growth. A moderate recession in the US or a trend in US policy toward further protectionism would intensify Western European tendencies toward economic nationalism, and would probably reverse the postwar trend toward economic cooperation. A sharp or prolonged depression in the US would lead to a cessation of economic growth and seriously endanger Western European political stability and cooperation.

We believe that moderate governments will continue to rule in the UK and in the smaller democracies of Western Europe and, providing there is no serious European depression, will very likely continue in West Germany. The threat to political stability in Western Europe will remain greatest in France and Italy. France and probably Italy are likely to be ruled by weak or indecisive governments for at least the next several years. However, the inability or unwillingness of these governments to meet popular demands for economic and social reforms might produce explosive situations within the next decade.

The Communist threat is greatest in Italy. Nevertheless, we do not believe that the Italian Communists and their left-wing Socialist allies are likely to attain power within this period, either by parliamentary means or by force. The strength of the French Communist Party is not likely to increase sufficiently to enable it to gain membership in the cabinet or to take over the French government during this period.

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^{*} This section includes the Conclusions of NIE 20-54, "The Outlook for Western Europe over the Next Decade", 26 April 1954.

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If West Germany can maintain a depression-free economy, we estimate that constitutional and responsible government has an excellent chance of continuing in that country. Should serious economic difficulties develop, there would almost certainly be a growing trend in West Germany toward a more authoritarian and nationalist type of government. This trend would be intensified if a moderate democratic government appeared unable to pursue effectively German national aspirations. While West Germany will almost certainly preserve a pro-Western orientation during the next few years, it will become an increasingly restive and independent associate, and will seek great power status.

Franco-German relations will continue to be the central problem of any common Western European political or military effort. We believe that the French will ultimately be forced to accept some arrangement for West German rearmament, but that they will do so reluctantly and hesitantly, and probably in such a manner as to detract from the effectiveness of the arrangement.

NATO will almost certainly remain the center of the Western security system. The Western European NATO states will remain convinced that the continued presence of US forces in Western Europe is vital to their security and to the prevention of war.

Unless a new series of Soviet actions stimulates increased efforts toward rearmament, the military forces of Western Europe at best will probably remain at approximately their present size, at least until the rearmament of West Germany has become effective. There will almost certainly be a significant increase in the quality of these forces.

We believe that Western Europe is unlikely to go much beyond the present degree of integration during the period of this estimate. Even if EDC and EPC are accepted in some form, open reservations and concealed opposition will almost certainly prevent full attainment of the EDC and EPC objectives. On the other hand, even failure to ratify EDC would not in itself destroy the military cooperation among Western European states now existing in NATO, nor exclude the possibility that NATO might be enlarged to include West Germany.

A great and recognized growth in nuclear capabilities may increase the difficulties presently felt in maintaining an effective Western coalition under US leadership.

^{*} For more detailed views, see Section I-B, "Probable Effects of Increasing Nuclear Capabilities upon the Policies of US Allies".

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EUROPE

В.	STATUS	OF	THE	NATO	DEFENS B	EFFOR
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The NATO ministerial meeting on 23 April 1954 concluded that the ultimate aims of the Soviet Union had not altered, noted the continued increase in Soviet and Satellite military strength, and agreed on the need for continuing effort, vigilance, and unity in the NATO defense program. The defense plans for 1954 were based on the "long haul" concept rather than a continued rapid military build-up for a "crisis" year. The main reasons for this shift in emphasis were the revised estimate that the Soviet threat is more long range than immediate, and growing political pressures for relief from present defense burdens.

The June 1954 progress reports of member countries unmistakably reveal stagnation in the NATO defense effort. Member nations have accomplished practically nothing in meeting the numerical force goals. There will be a further slippage in air force goals in spite of the fact that they were set at 500 aircraft less than the 1954 target (which was originally set in 1952). The most serious deficiency is in tactical aircraft, particularly all-weather fighters. Inadequately manned and equipped aircraft control and warning systems as well as shortages of anti-aircraft artillery also contribute to the critical weakness in tactical air power. Army force goals, although virtually unchanged from last year, may not be attained. Naval shortages persist, especially in escort vessels, minesweepers, and maritime patrol aircraft. For example, ocean escort vessels available in the first month after D-day are only 18 percent of requirements.

Recommendations for solving manpower training problems, strengthening support forces, and relieving equipment shortages are not being carried out. Belgium, the Netherlands, and Denmark have reduced their periods of national military service. Belgium has also indicated that it plans to reduce its army and air force goals. There is a diminishing emphasis on national defense programs despite improvement in the economic status of most member countries. Actual defense spending continues to fall far short of appropriations, and there is little disposition to direct unused funds toward carrying out NATO recommendations. The only notable progress has been in overcoming ammunition shortages.

The agreements signed in Paris on 23 October 1954 provide for the addition of 12 West German divisions, 1350 aircraft, and smaller type naval vessels to NATO strength. These acts are still subject to parliamentary ratification, however, and in any case the German build-up will require several years. General Gruenther holds that

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even with the German contribution there will still be a deficiency of 28 divisions in the forces required to defend Western Europe. This deficiency may be lessened, but will not be removed by the introduction of tactical atomic weapons. Present NATO forces are considered capable only of deterring a sudden attack.

The North Atlantic Council resolution extending the responsibilities and authority of the Supreme Allied Commander, Europe as part of the new agreements for controlling German rearmament gives General Gruenther the power to tighten his control ever and improve the effectiveness of existing forces and their supporting units.

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C.	STATUS	OF THE	WESTERN	EUROPEAN	I ECONOMY*
	(See	charts	followi	ing this	section)

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1954 was a highly favorable year for the Western European economy taken as a whole. Aggregate gross national product rose approximately four percent, while the rate of growth in individual countries was as follows: Germany, eight percent; Austria, six percent; France, four percent (from one percent in 1953); UK, three percent; and Italy, four percent (a drop from six percent in 1953). Industrial production in the first nine months of 1954 was nine percent higher for the area as a whole than in the corresponding period of 1953; this improvement was shared in varying degrees by all countries except Luxembourg. The 1954 rise in industrial output was largely attributable to increased production in the producer goods sectors of the economy in contrast to the 1953 expansion in the consumer goods field. Increases in 1954 were most notable in the output of the steel, automobile, chemical, construction and electric power industries. Agricultural production, though lower in some countries than in the 1953 bumper harvest year, was for the area as a whole far above 1948-1952 averages.

The favorable trend in production is reflected in the improving employment situation. Manpower shortages have appeared in the UK, the Netherlands, Switzerland and the Scandinavian countries. During the past year the unemployment problem has been significantly eased in West Germany, Austria and Belgium, though not in Italy.

The continued increase in economic activity in Western Europe in 1954 has been accompanied by a high degree of internal and external financial stability. Governments have taken a number of steps to foster expansion of production without increasing public expenditure. In several countries budgets and taxes have been reduced, restrictions and controls relaxed or eliminated, and savings and investment successfully encouraged.

The improved economic situation in Western Europe is also reflected in the fact that national currencies are now quite freely transferable within the limits of the European Payments Union. In addition over 80 percent of postwar quantitative restrictions on intra-European trade have been removed, and the volume of state trading was approximately halved between 1953 and 1954.

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^{*} These figures exclude Spain and Yugoslavia; they are based on performance of the 17 member countries of the Organization for European Economic Cooperation through the second and third quarters of 1954 supplemented with estimates of economists of the Foreign Operations Administration.

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Progress is being made toward removal of quantitative restrictions on dollar imports, notably by West Germany, the Benelux countries, and to a lesser extent the UK. However, remaining dollar restrictions, particularly against the import of US manufactured goods, are extensive.

Western Europe's balance of payments for 1954 is not yet known; however, preliminary information indicates an increase in the current deficit with the dollar area but a greater increase in the surplus with the non-dollar area. During the first half of the year exports to the US declined 13 percent compared with 1953, and imports rose slightly. This worsening of the US-WE trade balance was largely compensated for by increased US military expenditures in Europe. Gold and dollar reserves, which increased by 24 percent in 1953, had risen an additional \$1,531 million, or 12 percent, to a total of \$13,081 million by October 1954. This compares with \$10,284 million in 1938 but represents only a little over half the prewar reserves in terms of purchasing power.

Reconstruction in Western Europe is now virtually complete, military expenditure has levelled off and the backlog of demand is gradually being worked off. Living standards are in general higher than before the war and a greater degree of flexibility has been introduced into the economies of many countries following the abolition of rationing and other controls. However, the expansion of industrial production as compared with the prewar period is attributed chiefly to an increased number of man hours worked. In most countries productivity per man hour is only slighly above the 1938 level and few have been able to match the US increase of about 40 percent.

As a condition of full employment of existing resources is more nearly approached, the need for additional investment and increased productivity becomes more apparent. Increasing economic competition between Western Europe and the US through removal of dollar import restrictions, is serving to stimulate productivity by lowering costs and promoting efficiency. The pressing problem for the immediate future is integration of Western European countries into a worldwide system of trade and payments and the achievement of full currency convertibility.

Estimate of Probable Developments*

If world economic conditions remain reasonably favorable, Western Europe's aggregate GNP is likely to increase by about 30-35 percent during the next decade. The present tendency toward liberalization of trade is likely to continue. However, any appreciable development toward unfavorable economic

^{*} Adapted from NIE 20-54, "The Outlook for Western Europe Over the Next Decade", 26 April 1954.

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conditions in the non-Communist world would probably reverse the postwar trend toward Western European economic cooperation. A sharp or prolonged US depression would have serious economic and political consequences in Western Europe.

The Western European dollar problem will be smaller and more manageable during the next ten years although the fear of a recurrence of the dollar shortage as US aid declines will delay dismantling of trade and exchange controls, particularly if the demand for Western European exports should also slacken.

Western Europe's trade with the Soviet Bloc is likely to remain small in relation to its total trade as long as political tensions persist and the Bloc continues to pursue its policy of self-sufficiency. Vulnerability to Soviet trade offers would increase considerably in the event of an economic recession, or in the event of increased restrictions on trade among Free World countries.

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Figure VI-C1

EUROPEAN INDUSTRIAL PRODUCTION SELECTED INDUSTRIES - OEEC COUNTRIES

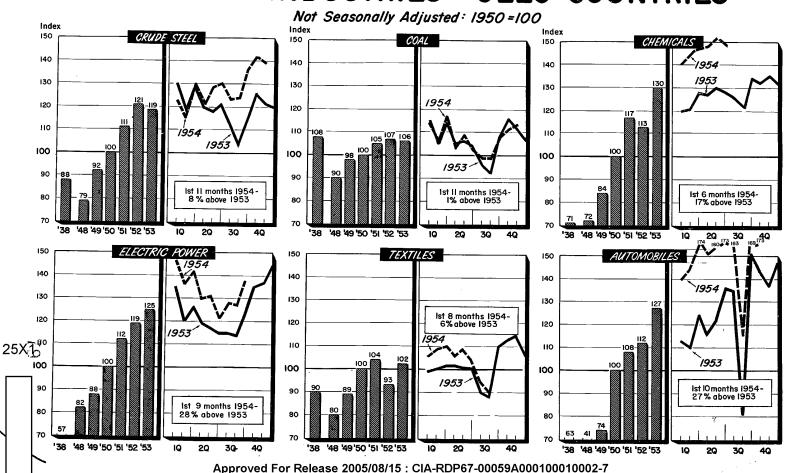
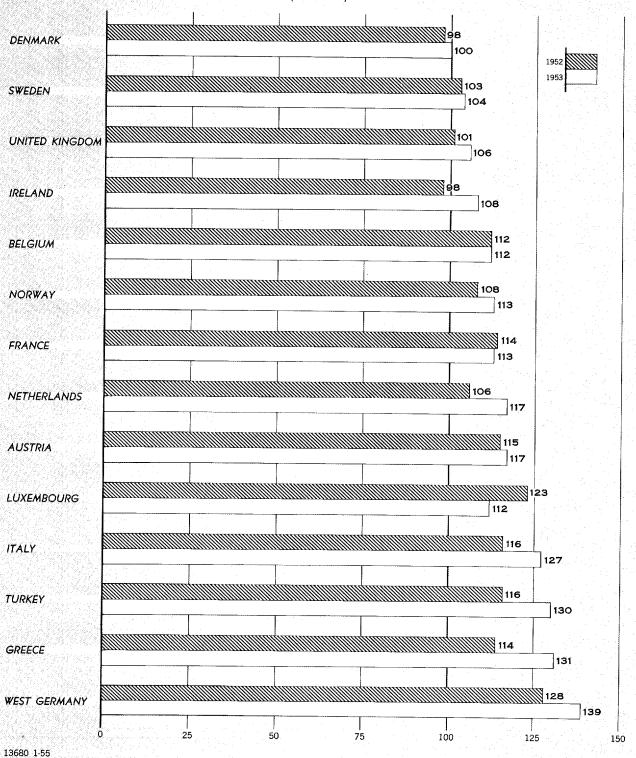


Figure VI-C2

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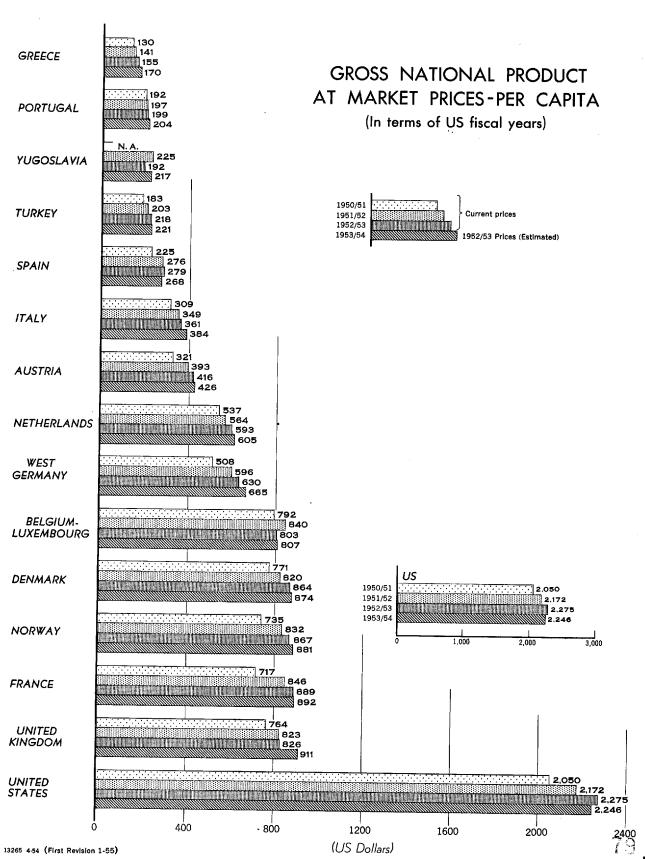
INDEXES OF INDUSTRIAL PRODUCTION 1952 and 1953



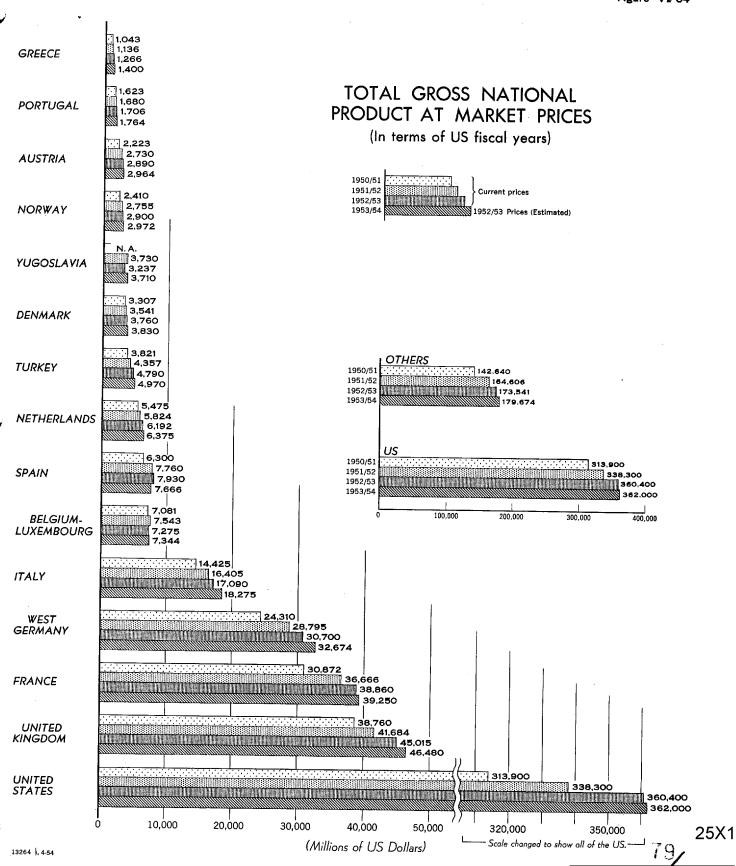


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EUROPE

D.	STATUS	OF	EUROPEAN	INTEGRATION

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Present Situation

From 1948 to 1953 there was considerable progress toward economic, political, and military integration in Western Europe. The French Assembly's rejection of EDC brought to a halt the movement toward supra-national institutions, though the Paris Accords for an expanded Western European Union WEU) make a further step forward toward integration on a coalition basis.

European integration has been pursued so far largely through two processes: one has provided for increasing cooperation and coordination of policies by the governments of almost all Western European countries through alliances and common institutions; the other has involved the surrender of certain sovereign powers to a supra-national organization representing "Little Europe" -- France, West Germany, Italy, The Netherlands, Belgium, and Luxembourg.

On the intergovernmental level, the 17-nation Organization for European Economic Cooperation (OEEC) is working for trade liberalization, stimulation of productivity, and a return to full convertibility of currencies. Intra-European trade settlements are facilitated by the European Payments Union (EPU). The 14-nation Council of Europe at Strasbourg is a purely deliberative body seeking to coordinate national policies on all common problems. It has served to bring the UK into closer contact with Continental affairs.

The more ambitious efforts for establishing a supra-national community in "Little Europe" have thus far produced only the Coal-Steel Community (CSC) at Luxembourg. The plan for a European Political Community (EPC), designed to absorb the political organ of the CSC and EDC and to give over-all direction to the supra-national experiment now appears to have been abandoned. Although it has won substantial recognition, even the CSC faces an uncertain future. It is still at a disadvantage in dealing with the powerful cartels in coming showdowns on reorganization and is highly vulnerable to clashing decisions by the member nations in the "unpooled" sectors of their economies. The British have agreed to a closer relationship with the CSC through the establishment of a joint council with consultative functions.

While French rejection of EDC marked an atleast temporary halt to the movement toward supra-national institutions, the Paris Accords of 23 October did move in one respect toward supra-nationality in

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proposing certain definite limitations on the national veto. The special arms control agency to be set up under the WEU Council is to take decisions in many cases by less than a unanimous vote, and Britain has agreed with some important reservations not to change the size of its forces on the Continent if a majority of the member countries object. In addition, implementation of the Accords would strengthen NATO arrangements providing for integration of forces and of their logistical support, thus making it more difficult for any of the Continental nations to take unilateral military action.

Estimate of Probable Developments

We believe that Western Europe is unlikely to go far beyond the present degree of integration during at least the next few years. Rising nationalist sentiment in several major Western countries, largely a result of improved economic conditions and diminished dependence on US aid and foreign policies, will not favor relinquishment of sovereign powers in further integration schemes. However, while integration in the supra-national sense may remain at a standstill, we believe that the Paris Accords regarding West Germany, if ratified, will probably lead to increased coordination of national policies through WEU and NATO. We further believe that such common institutions as the Coal-Steel Community, OEEC, and the Council of Europe will continue to be utilized as the basic instruments of Western European cooperation.

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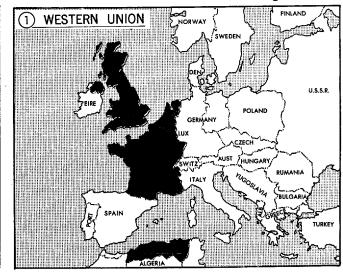
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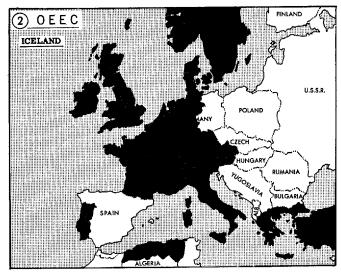
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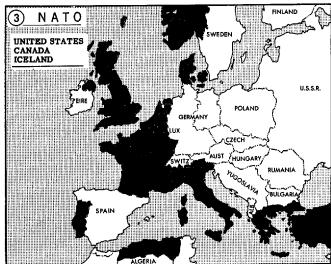
STEPS TOWARD WEST EUROPEAN UNITY

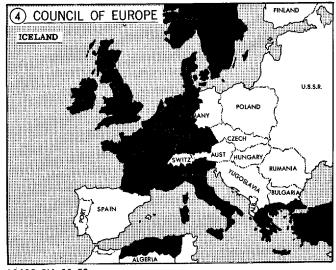
l. Western Union (Brussels Pact)	March 1948
2. OEEC - Organization for European Economic (European Marshall Plan Council)	Cooperation April 1948
3. NATO - North Atlantic Treaty Organization	April 1949
4. Council of Europe	May 1949
5. Schuman Plan (Coal-Steel pool) EDC - European Defense Community (Street but)	July 1952

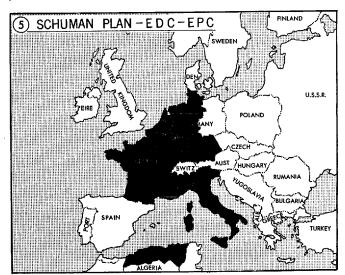
EPC - European Political Community





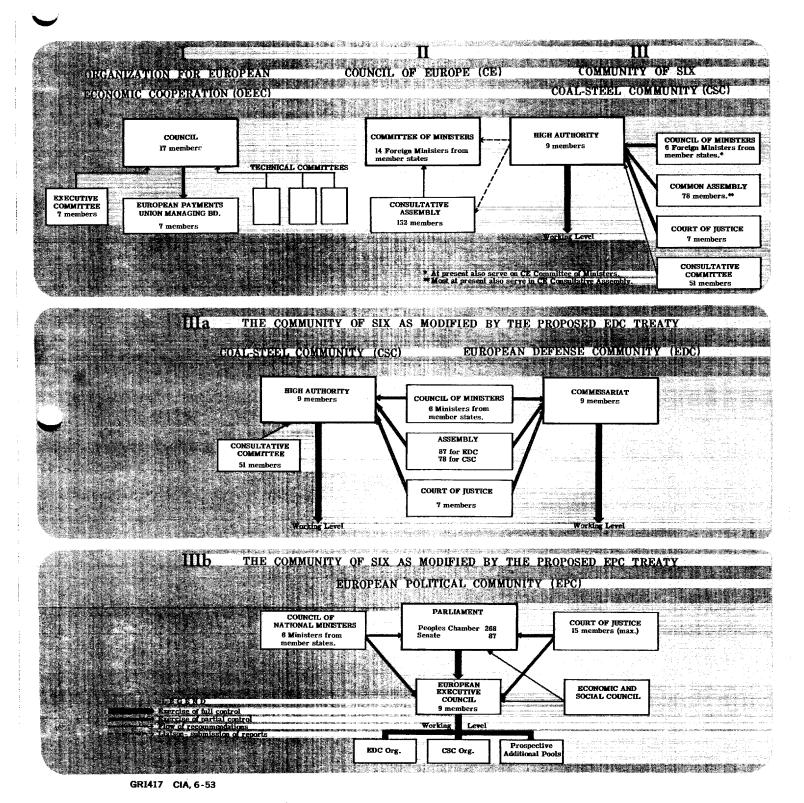






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EXISTING ORGANIZATIONS OF WEST EUROPEAN INTEGRATION



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EUROPE

F.	FRANCE*

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Political

The current return to a right-center coalition government conforms to the basic character of political relationships in the Assembly, where the isolation of the Communists on the extreme left gives exaggerated strength to the center and "moderate" rightist parties. In the probable majority Assembly view, Edgar Faure does not suffer by comparison with his predecessor in terms of ability and is a much "safer" Premier in terms of positive action against individual interests. However, Faure will need all his flexibility and political skill to preserve a coalition representing all parties except the Socialists and Communists.

The membership of the French Communist Party (PCF) is now at a postwar low of 350,000 - 400,000, its publications have declined in circulation, and it has had little success in organizing political strikes. On the whole, however, the influence of the PCF has changed relatively little over the past two years. During this period, although French governments have continued to pursue modest anti-Communist measures, they have shown little interest in undertaking a vigorous campaign against the PCF.

Economic

During 1954 the French economy emerged from the relative stagnation of 1952-1953. GNP and per capita private consumption increased 4 percent above 1953. Price levels and the cost of living have remained stable since 1952. Moreover, the French balance of payments has improved considerably; the metropole's foreign trade deficit was reduced from \$1.2 billion in 1952 to an estimated \$430 million in 1954. At the same time French extraordinary dollar receipts are rising to a probable peak of over \$1 billion in US FY 1955.

This improved economic picture is attributable more to the favorable international economic situation, the effects of European trade liberalization, and a good foreign market for French manufactures, than to French economic policies. The combined effect of makeshift measures to reduce the large balance of payments deficit has been estimated as equivalent to a 10 percent devaluation of the franc.

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^{*} This section is an abstract of NIE 22-55, "Probable Developments in France," 29 March 1955.

Relatively little was done to carry out Mendes-France's stated intention to increase production through structural reform of the French economy, making it more modern, flexible, and competitive by gradual elimination of privileges, subsidies, and other protective devices.

Military

France's military posture in Europe has been adversely affected by: (a) diversion of military resources to Indochina and to North Africa; (b) decreasing apprehension regarding the likelihood of Soviet military aggression; and (c) a desire to reduce budget deficits and to divert resources to productive investment. In 1954, estimated French defense expenditures by NATO definition amounted to about 8.5 percent of GNP at market prices. These outlays did not suffice to bring the French armed forces up to NATO standards of strength and effectiveness.

The French now have 16 NATO-committed active divisions in Europe and North Africa. Nevertheless, France could not make more than 11 operational divisions available to NATO by M/30. The French plan to reorganize their army combat units in anticipation of the tactical use of nuclear weapons. Present plans, still undergoing change, call for this reorganization to be completed between 1955-1958.

The French Navy's current personnel strength is hardly sufficient to provide a peacetime complement for the present fleet. Its effectiveness is also impaired by an archaic supply system, aging equipment, and the inability of the existing carriers to operate jet aircraft.

The principal combat strength of the French Air Force is concentrated in 32 tactical squadrons with about 635 aircraft (nearly all jet) now committed to NATO. Less than half are combat ready, and the ratio is decreasing on account of the obsolescence of aircraft, acute shortages of spare parts, and lack of maintenance personnel.

The Communist element in the active officer corps is estimated at not more than two percent; no Communists are known among active flag or general officers. Roughly 10 percent of army and air force active and reserve enlisted men, including conscripts, are reported to be under varying degrees of Communist influence.

Foreign Affairs

Mendes-France's view of France's present international position appeared to represent majority French sentiment and probably still does. His fundamental thesis was that France's weakness and its overextended commitments prevent it from realizing its claim to "world power" status. He believed that in its weakened, dependent condition

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France was exposed to undue pressure from its allies, and that in a continental supranational system it would be threatened with domination by a more powerful West Germany. Thus, he saw reforms at home and retrenchment abroad as prerequisites to regaining a respected voice in allied councils.

A probable majority of Frenchmen consider that the nature of Soviet leadership since Stalin's death and the magnitude of Soviet internal problems may permit some form of international detente. On the other hand, we believe it is still a fixed tenet of French policy that close French alignment with the US and UK through NATO is vital to the security of France. Within the framework of its NATO alliance French policy tends to be aligned more with that of the UK than with that of the US.

French preoccupation with the threat of German revival still produces contradictory impulses in French policy and creates major problems for France's allies. The French still fear that a sovereign and rearmed West Germany: (a) will come to dominate Western Europe; (b) will make efforts to achieve reunification which will cause war; or (c) will realign itself with the USSR.

The French have increasingly stressed their overseas possessions as an indispensable element in France's postwar "great power" position. With the deterioration of the French position in Indochina, the "Eurafrique" concept of France's international power position has become a fixed element of French policy. This concept stresses the need to concentrate France's resources on expanding the economies and strengthening the defenses of French African possessions, particularly North Africa.

Estimate of Probable Developments

Barring the unlikely contingencies of a severe domestic economic crisis or external developments seriously undermining France's position in Europe or North Africa, the right-center orientation of French cabinets will probably prevail until the 1956 national elections. The outlook is for continued ministerial instability, but cabinet changes are likely to be limited to the reshuffling of moderate rightist and center leaders.

The pattern of Assembly politics and the character of French governments are unlikely to be fundamentally changed by the outcome of the 1956 elections. We believe that a considerable degree of instability and negativism will for the foreseeable future continue to characterize the French political scene.

Unless the French governments succeed in attracting extreme left votes by a dramatic reform program, the French Communist Party (PCF)

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probably will continue to receive close to 25 percent of the popular vote in the 1956 elections, but will almost certainly continue to be excluded from direct participation in forming national policies.

France's economic prospects are moderately favorable; however, its rate of economic expansion over the next few years is likely to be somewhat less than the European average and considerably less than that of West Germany. The numerous weaknesses of the French economic system and the Assembly's unwillingness to accept strong reform programs will continue to inhibit rapid growth of the French economy.

Any likely French government will remain compelled to make every effort to achieve some form of international detente. However, France almost certainly will not make or accept any major proposals strongly opposed by the US and the UK. On the other hand, despite France's continued peacetime attachment to NATO, we believe that any French government, if it considered itself faced with the threat of nuclear devastation, might seek a neutral position.

Barring a major emergency, there is no prospect of any increase in French defense expenditures. We are currently unable to assess the outcome of the French Army's envisaged reorganization during 1955-1958, but it may result in units more effective under conditions of nuclear warfare than existing French NATO divisions. The combat effectiveness of the French Navy and Air Force will probably improve slightly over the next several years.

Even after West Germany's entry into WEU and NATO, continued French fear and distrust of West Germany probably will result in French policies designed to slow the tempo of the German military build-up. For at least the next few years friction between France and West Germany may be a serious divisive force within the Western alliance.

French policy toward North Africa probably will alternate between negotiated reform, imposed reform, and repression, with some slow and uneven liberalization the net result. However, France will use force to maintain what it considers the essential elements of its control in North Africa.

Although France, if left to its own devices, would probably adopt a policy of "accommodation" with the Viet Minh, we believe that it will keep reluctantly in step with US efforts to bolster the Vietnamese government. On the other hand, the French will probably adhere to the Geneva Agreement to hold elections in 1956.

In the light of the above estimates, we conclude that France will continue to be one of the problem areas of the Western coalition. It will remain beset with internal weaknesses, and its policies vis-a-vis Germany, Indochina, and North Africa will continue to create difficulties for the US.

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EUROPE

H. WEST BERLIN

(See map, Figure VI Hl)

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West Berlin has been fairly free of Communist harassment since Stalin's death, and the morale of the people is good. Travel to West Berlin continues to be possible over four roads and six railroad lines. In June 1954 two new rail check points were added and the number of trains running to Berlin daily was doubled. About 30,000 West Berliners still commute to jobs in the eastern sector. Public utilities operate independently in East and West Berlin, except for the elevated railway, subway, and sewage system. A stockpile with goals of 12 months supply of coal and roughly 6 months supply of other essential commodities is maintained jointly by the Federal Republic, the Berlin government, and the Western Powers against the possibility of a new blockade. On April 1, 1955, the East Germans renewed the harassment of the people of West Berlin by placing exorbitant taxes on trucks carrying freight between West Berlin and the Federal Republic.

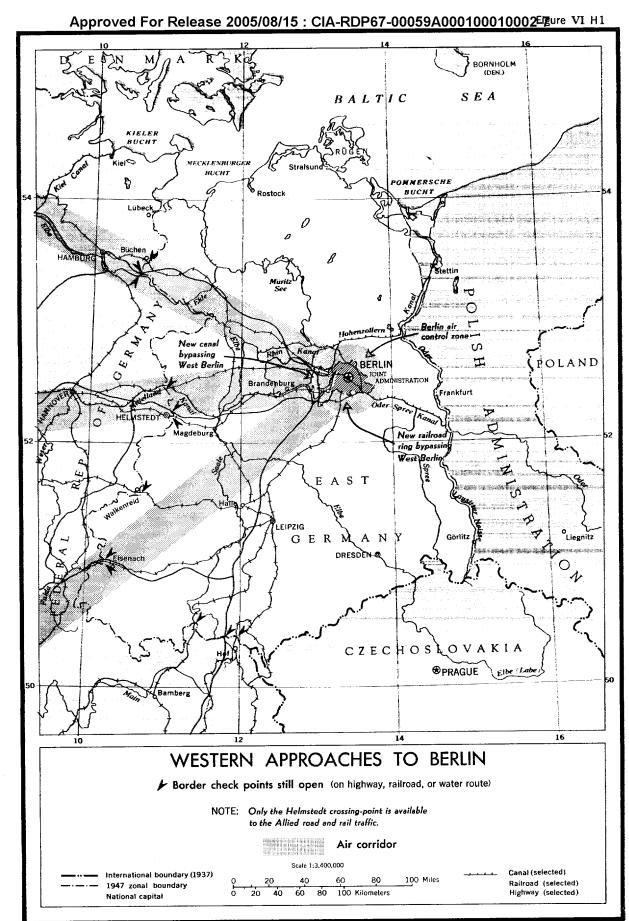
Following the death in September 1953 of Mayor Ernst Reuter, who headed Berlin's socialist-conservative coalition government, cooperation among the Berlin parties deteriorated and Walter Schreiber, a Christian Democrat, was forced in November 1953 to form a government without the Socialists. However, as a result of the December 1954 election, the Socialists, with 64 seats in the city legislature, formed a government in coalition with the Christian Democrats who had won 34 seats. The Free Democrats, with 19 seats, are in opposition. Otto Suhr, a Socialist, occupies the position of governing mayor.

The Western allies have not permitted the incorporation of West Berlin into the Federal Republic. However, the laws of the Federal Republic are ordinarily adopted "by reference" by the West Berlin legislature, and a non-voting West Berlin delegation sits in the Bundestag at Bonn.

Although West Berlin is greatly dependent upon financial aid from the Federal Republic and the US, and about 16 percent of its working population remains unemployed, its economic condition has shown steady improvement during the past year. In the third quarter of 1954 industrial production reached a new peak of 91 percent of prewar levels. The iron and steel, machinery, and electrical industries are the principal recipients of new orders which have come increasingly from countries other than West Germany.

The Western allies maintain approximately 8,000 troops in West Berlin.

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EUROPE

I.	SAAR	

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The French and German governments completed ratification in 1955 of and agreement on the internationalization of the Saar. Deposit of the instruments of agreement has not yet taken place.

The Saar, a 2,500 square mile area with a German-speaking population of nearly 1,000,000, produces more than 15 million tons of coal and two million tons of steel annually. At the end of World War II, it was politically detached from Germany pending a German peace treaty and integrated with the economy of France, which exercises extensive control through joint management of coal mines and railroads as well as through a monetary and customs union. Revised conventions, ratified in 1953 by the French parliament and the Saar Landtag, consolidated the economic and customs union and confirmed the Saar's political autonomy. Parties advocating reunion with Germany are not licensed and could not participate in the 1952 Landtag elections.

The Mendès-France government reaffirmed the long-held French policy that a satisfactory Saar settlement remained a prerequisite for French acceptance of German rearmament. The problem was taken up in French-German secret negotiations at the Paris Conference in October 1954 when Adenauer and Mendès-France met on the question. Under strong pressure to avoid further disunity in the Western alliance and in the perspective of new French proposals for broad French-German economic and cultural collaboration, the two premiers reached a compromise.

A neutral commissioner, appointed by the Council of Ministers of the Western European Union (WEU) is to handle Saar foreign affairs and defense, the latter to be arranged with Supreme Allied Commander Europe. The commissioner will represent the Saar in meetings of the foreign ministers of the Coal-Steel Community and will have an advisory role in sessions of the WEU Council of Ministers. The Saar already is represented in the Council of Europe assembly, its delegates to which will also represent it in the WEU assembly. Its delegates to the CSC will henceforth be separate from the French.

A referendum on the Saar statute will take place shortly after the Franco-German Agreement becomes effective and, if it is approved by the Saarlanders, new Landtag elections with the participation of pro-German parties will occur within three months thereafter. However, after the referendum, agitation for reunion of the Saar with Germany will not again

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be permitted until the conclusion of a German peace treaty. Existing French-Saar economic relations are to be maintained. The stated objective of the settlement is the progressive development of a similar German-Saar economic relationship, but in such a manner that the re-establishment of a French-Saar customs frontier can be avoided. France and Germany are to recommend the transfer of the Coal-Steel Community headquarters from Luxembourg to Saarbrucken, as a symbol of the Saar's new "European" status.

The wording of the Saar agreement permitted it to be presented to the French as essentially permanent, and to the Germans as a provisional settlement, subject to revision in the future German peace treaty. In the accord, both France and Germany agree to seek British-American guarantees to support the settlement until the peace treaty, but there are indications that France will also seek such support at the peace treaty to make the agreement permanent.

Although there is a widespread feeling in the Federal Republic that the Saar solution, while not ideal, is the necessary price for the Paris Accords, members of several West German parties have condemned it for domestic political reasons and on grounds that it amounts to the permanent detachment of German territory. The German Socialists have challenged the constitutionality of the Saar Agreement and the Federal Constitutional Court will hear the arguments of the government and the Socialists in April 1955.

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K۰	ITALY **

Political

In the most recent general elections, held in 1953, the center parties, led by the late Premier De Gasperi's Christian Democratic Party, obtained a bare parliamentary majority. In early 1954 after a series of cabinet crises, Christian Democrat Scelba finally formed a center party coalition with Social Democrats and Liberals in the cabinet and Republicans supporting it from the outside. Because of the coalition's extremely narrow majority in the Parliament, any relaxation of party discipline within the coalition on a major issue could result in the government's fall.

Establishment of a strong government has been hindered by factionalism within the Christian Democratic Party. At the party congress in June, 1954, the left wing of the Christian Democrats, led by Amintore Fanfani, won overwhelming control of the party organization, though not of the party's parliamentary delegation. The influence of the Pella right wing, which lost substantial ground within the party at the congress, has waned further, and a split in the Monarchist Party has virtually eliminated for the time being the possibility of an effective Christian Democratic-Monarchist alliance.

Ascendancy of the left wing of the Christian Democrats, with which Scelba previously has not been closely identified, contributes to the internal weakness of the Scelba government. Because of Fanfani's ability to control the party organization, Scelba almost certainly could not retain office in the event of a serious clash over policies with the Fanfani faction, or of a decision by Fanfani to displace him. At the same time neither Scelba nor the Fanfani elements can move too far left too rapidly lest the party be further weakened by defections from its right wing.

Although the membership of the Italian Communist Party has declined over 20 percent from its postwar peak in 1947-1948, it remains the largest Communist party in Western Europe with an estimated 1.7 million membership and a hard core of nearly half a million. Membership in the Communist-dominated trade union federation (CGIL) has also declined to about 3.5 million, but no significant membership losses appear to have occurred since 1950. The non-Communist unions have not seriously threatened Communist domination of organized labor.

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Despite these losses in membership, the electoral appeal of the extreme Left is continuing to improve. The Communists and their Nenni Socialist allies maintained their strength in the North in the most recent elections, and showed a rising trend in the backward South. The Communists, and the CGIL also, have been undertaking intensive organizational activities in southern Italy, which traditionally has been a Monarchist stronghold.

The government's problem is rendered more difficult by the fact that class lines remain among the most rigid in Europe, and the nation is divided by the issue of clericalism. A major division also exists between the impoverished South and the considerably more prosperous North. Moreover, popular feelings of economic insecurity, frustration, and cynicism continue to grow.

A noteworthy weakness of democracy in Italy lies in the absence of a democratic alternative to a government dominated by the Christian Democrats. With about three-fourths of the Socialist voters supporting the pro-Communist Nenni Party, there is no party on the non-Communist left (such as the Labor Party in Britain) to stand as an alternative democratic government. As a result, leftist parties representing pro-Communist solutions now constitute the only significant opposition to a Christian Democratic-dominated government.

Economic

Italy is deficient in almost all basic resources save manpower and hydroelectric potential. Its still growing population, now nearly 48,000,000, is larger than that of France but its gross national product is only about half as great. Except for Spain and Portugal, Italy has the lowest level of living in Western Europe. Among the Western European democracies, only in Italy does agrarian reform remain a major national issue. Nevertheless. with US assistance, Italy has had a substantial postwar economic recovery. Gross national product in 1953 was approximately seven percent above that of 1952. Within a framework of stable price levels, there were substantial increases in industrial output, agricultural production, value of imports and exports, gold and foreign exchange receipts, savings deposits, and consumption. In many cases prewar levels were greatly exceeded. In spite of these achievements, the average number of unemployed remains at over two million -- roughly 10 percent of the working population -- with probably an equal number underemployed. The rate of investment, though high, has been inadequate to reduce the backlog of unemployment. This situation continues to constitute the most crucial problem of the Italian economy.

Military

The Italian armed forces at present are capable of no more than delaying action in the event of a Soviet attack. However, the military establishment

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is slowly but steadily improving with US aid, and morale is considered to be good. Although efforts have been made to remove Communists from sensitive positions in the armed forces, there are still a small number of Communists and Communist sympathizers in the officer corps, and a greater proportion among conscripts and other enlisted men.

The army consists of 10 infantry and 3 armored divisions and 5 Alpine brigades, as well as numerous independent units. The strength of the army will probably remain about the same, varying roughly from 225,000 to 275,000 depending on the number of conscripts in service. The air force consists of about 46,000 officers and men (including about 3,500 pilots), with some 400 jet fighters. Of these, some 225 F-84G fighters are assigned to 9 fighter-bomber squadrons, which are currently combateready. Nevertheless, serious deficiencies still exist in the air force, especially in air defense and maintenance capabilities. The Italian Navy of about 39,000 officers and men is being reconstituted with US aid primarily as a small—ship defensive force. Its combat effectiveness at present is limited by deficiencies in training and equipment and by lack of modern submarines and effective anti-submarine warfare aviation. In general, the armed forces are not fulfilling present NATO commitments, chiefly because of a lack of funds.

Estimate of Probable Developments

Italy's effectiveness as a NATO member will continue to be limited by its persistent and fundamental economic and social weaknesses, which Italy is unlikely by itself to mitigate substantially during the period of this estimate. The Italian Communist Party is the largest in Western Europe, and a further growth in Communist-Nenni Socialist strength is probable. However, while the battle against Communism is far from over, we believe that the Communists are unliekly to come to power for the reasons stated below.

We believe that the Communists are unlikely to undertake to seize power by force. If, however, the Communists should attempt a coup, we believe that the government, controlling the public security and military forces, almost certainly would be capable of frustrating the coup.

A government dominated by the Christian Democrats in coalition with or supported by other anti-Communist parties will almost certainly remain in power until the next national elections, now scheduled for 1958. The Scelba government probably will remain in office through 1954 and possibly until the parliament elects a new President of the Republic in mid-1955.

The present Italian Government is likely to be more vigorous than any previous post-war government in attempting to implement economic and social reforms. However, unless a wisely conceived program is carried out on a broad scale against the political, economic, and social bases of Communist

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power and prestige, the government probably will not be able to reverse the trend to the extreme Left, and the Left Bloc's parliamentary representation, now amounting to 37 percent of the Chamber of Deputies, would almost certainly increase at the next general election.

We believe that the anti-Communist parties almost certainly will not permit the Left Bloc to form a government or participate in one. Nevertheless, the power of the Communist and Nenni Socialist legislators to obstruct parliamentary action might become so great as to threaten the functioning of parliamentary democracy. Should this situation arise, anti-Communist forces would probably meet it by forming a government able and willing to carry out drastic repressive measures against the extreme Left. Such a government would almost certainly be led by Christian Democrats, but its program would probably be further to the right, since it would depend for its decisive support upon the rightist parties.

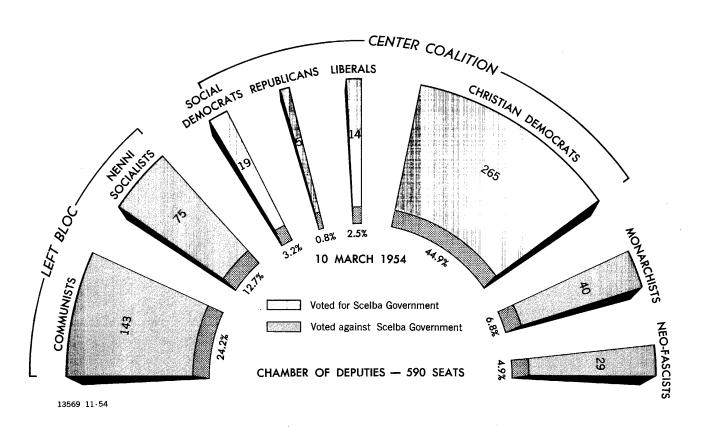
Assuming no serious international recession, Italy probably will be able to maintain economic stability and to continue the present rate of economic expansion. However, even over the long term the unemployment problem probably will not be greatly mitigated, unless substantial outside economic aid is available to assist in financing a long-range expansion plan.

In the event of war between the West and the Soviet Bloc, the Italian Communists, unless the military and security forces were in a position to promptly suppress them, would probably be capable of widespread sabotage in industry, transportation, and communications, particularly in northern Italy. They might also be able to seize temporary control of key areas and installations.

Although the popular appeals of neutralism may grow, we believe that they are unlikely to have a substantial effect on the pro-Western policies of the Italian Government. Italy almost certainly will remain firmly oriented toward the West, and particularly interested in promoting Western European integration. It will continue to rely heavily on US support. The Trieste settlement almost certainly will result in some improvement in Italo-Yugoslav relations, although in the longer run new frictions may arise out of conflicting interests in the Adriatic.

Figure V1-K

PARTY SUPPORT OF THE ITALIAN GOVERNMENT



EUROPE

M.	AUSTRIA*

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Political

Although Austria remains occupied pending conclusion of a State
Treaty and is divided into US, UK, French, and Soviet zones, the Austrian government administers the entire country. All Austrian legislation is subject to review by the four-power Allied Council; however,
most Austrian laws are not subject to veto by any one power. The Austrian people resent protracted occupation but they have learned to live with
it, and its continuation is unlikely to affect Austria's political
orientation, including the vigorous anti-Communism of the people.

Austrian political life since 1945 has been marked by the unbroken predominance of a moderate pro-Western coalition government composed of Austria's two major political parties. Although the two parties differ substantially on questions of social and economic policy, they have been consistently able to compromise.

The government is currently led by the People's Party which derives its strength from the farming population, big business, and Catholic elements in the upper, middle, and working classes. Although the party is Catholic in character, it is not a Church party. The party asserts its devotion to free enterprise, but in effect stands for a state regulated capitalism with corporative and protectionist features. The party leaders are strongly anti-Communist, but they apparently believe that a conciliatory policy toward the USSR may win concessions for Austria. Although the People's Party has 74 seats in the Nationalrat, its popular strength has declined somewhat since 1949 to 44 percent of the vote.

The Socialists are a class party representing the vast majority of Austrian labor and segments of the lower middle class. The Socialists won 73 seats and 42 percent of the vote (a slight pepular plurality) in the 1953 election. The party pursues a slightly less far-reaching social welfare policy than that of the British Laborites. In practice it has abandoned Marxism and anti-clericalism and adopted moderate pregrams designed to attract a wider segment of the population. It demands no further nationalization of Austria's basic industries. The party's eagerness to remain in the government will almost certainly continue to induce the Socialists to accept numerous compromises with their continue lition partner. The Socialists are strongly anti-Communist, and their influence with labor has been an important factor in maintaining the Austrian government's authority in the Soviet zone.

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The financing and control of investment will remain divisive issues, with the Socialists pressing for a high level of public investment financed by taxation, while the People's Party advocates conservative policies designed to attract foreign eapital and restore the domestic capital market.

The parties of the extreme left and right, the Communists and the Independents, have respectively four and lip seats in the Nationalrat. The Austrian Communist Party is one of the least effective in Europe. It attracts about five percent of the electorate, and has an estimated 60,000 card holders. Rightist strength represents about 11 percent of the vote and appears to be declining.

Although no Austrian party officially advocates anschluss, the Independent Party is the political preference of the small numbers of Austrians who retain sentiments for integration with Germany. The decline of the Independent Party may indicate a decline in this progerman sentiment. However, in the event of a marked deterioration of the Austrian economy many Austrians might not object to some form of political arrangement with Germany which promised to improve economic conditions while guaranteeing Austrian autonomy.

Austria's overriding foreign policy objective is the removal of the occupation regime and the resteration of full independence. The Austrians are basically pre-Western but are confronted with the dilemma of retaining the moral and political support of the Western Powers while at the same time avoiding actions which the USSR could use as a pretext for encreachments. At the present time, the Austrian government has accepted a Soviet invitation to participate in bilateral discussions concerning the problems involved in concluding a State Treaty.

Economie

Austria is a highly industrialized country with substantial resources of timber, minerals, fuels, and hydreelectric power. The standard of living of its nearly 7,000,000 people is above that of Italy though considerably below that of West Germany. The GNP in 1953 was about three billion dollars.

Austria's postwar recovery which was effected with over one billien dollars in US aid, has exceeded the most optimistic expectations. Since December 1953 the country has no longer required US economic aid. As compared with 1938, the CNP has increased one-fourth and industrial production by 60 percent. War time investments by Germany and massive postwar aid from the US brought about a decided shift from the manufacture of consumer goods to that of capital goods.

Austria has succeeded in controlling inflationary pressures, and the present situation is characterized by a moderate industrial expansion, with rising employment and productivity.

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Despite the country's remarkable recovery, its economic growth and stability remain subject to certain handicaps: (a) there is resistance to change and fear of competition — business, agriculture, and labor alike seek to protect themselves by collective action and restrictive regulation; (b) low incomes and fear of currency depreciation make it difficult to mobilize investment funds without recourse to inflationary financing; (c) Austria's heavy dependence on foreign trade makes it extremely vulnerable to world trade fluctuations; (d) finally, there is the ever-present threat of Soviet interference.

Austria is highly dependent on foreign trade because of its heavy reliance on food and industrial raw materials imports; at present, imports or exports account for 20 percent of its GNP. Trade with traditional markets in Eastern Europe has declined from 33 percent of the total in 1937 to about 11 percent, and Austria has redirected most of its trade toward the West. However, Austria still is more heavily dependent upon trade with the Bloc than any other country in Western Europe except Finland, and its export industries remain vulnerable to Soviet trade offers.

Austria's postwar recovery has occurred despite a unilateral Soviet interpretation of the Potsdam Agreement concerning the disposition of German assets abroad. The Soviets control almost all Austrian oil production, the largest in Western Europe, and have increased the exploitation of Austrian oil resources far beyond that achieved by Nazi Germany. They also control the Danube Shipping Company's assets in the Soviet zone. A Soviet agency, the USIA, exercises rights of ownership over 10 percent of Austria's manufacturing industries and over a chain of nearly 250 retail stores. Total Soviet takings since 1945, excluding occupation costs, are estimated roughly at \$900 million.

Military

Austria is currently prohibited from organizing regular military forces. Its present security forces consist of the Federal Police (16,500) in the major cities, the Gendarmerie (10,200) in the rural areas, and the Special Gendarmerie, a 5,700 man force trained in the Western zones as the nucleus of the post-treaty Austrian Army. The Special Gendarmerie is organized into seven infantry battalions which are scheduled to be expanded to ten with a total strengh of 8,500 men, by July 1955. The state of training is excellent and Communist penetration of the Gendarmerie and Special Gendarmerie is negligible. Under the terms of the "Long Draft" Treaty, Austria would be allowed an army of 53,000 men, and a 5,000 man air force.

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Estimate of Probable Developments

Barring deterioration of Austrian economic conditions and of the international situation, the maintenance of internal political stability under a coalition government is probable. Termination of the occupation would remove a powerful cohesive force from Austrian politics, a circumstance which would probably increase political and social tensions, and might result in dissolution of the coalition. Even in the event of an early end to the occupation, the chances are better than even for a continuation of political democracy and stability in Austria.

Provided trade conditions remain favorable, and barring substantially increased Soviet interference with the Austrian economy, Austria's rate of economic growth, now second only to West Germany in Western Europe, is likely to exceed the Western European average.

Apparently reasonable Soviet overtures on the State Treaty question or on alleviation of the occupation would almost certainly induce the Austrians to participate in bilateral negotiations and probably tempt them to offer concessions to the USSR. However, the Austrians would accept no settlement which they believed would impair Austria's security or increase Communist influence in domestic political affairs.

At the same time, Austria will probably feel compelled to maintain a delicate balance between its basically pro-Western orientation and the necessity of avoiding actions which the Soviet Bloc could interpret as unfriendly. This situation will continue to introduce an element of ambivalence into the conduct of Austrian foreign policy.

So long as the Soviets avoid indicating clearly that they will never agree to a State Treaty, the Austrians will be unwilling to jeopardize their chances of obtaining Soviet consent to the treaty by agreeing to any Western proposals for a substantial increase in Austrian military strength during the pre-treaty period.

If the occupation forces were withdrawn, Austria's present and projected security force probably could cope with any internal threat from the currently weak Communist Party. The security forces, even if reinforced by the Austrian military forces authorized by the "Long Draft" Treaty, could not defend Austria against an invasion, but would almost certainly suffice to meet any other Communist attempt to overthrow the government by force.

The continued occupation of Austria offers the USSR several military and political advantages. It is probable that the USSR regards Austria primarily as a bargaining counter in the struggle with the West over the German issue. In any event the USSR probably would relinquish its position in Austria only within the context of a German settlement.

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EUROPE

N-1.	BENELUX CO	untri es
(Belgium,	Luxembourg,	Netherlands)
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The Benelux economic union was only partially implemented in the first few years after World War II, and negotiations over the past few years have failed to bring full union. Current discussions are resulting in a measure of agreement between business representatives, but progress continues to be slowed by Belgian concern over their inability to meet Dutch competition. One major obstacle is the failure of Belgian industry to modernize its plant to meet the competition of new Dutch industries. Moreover, Belgian wages are generally higher than those in the Netherlands resulting in higher production costs. Finally, Dutch agriculture is more competitive than its highly-protected Belgian counterpart. Thus, in the face of strenuous Dutch export efforts, the perennially favorable Belgian position in trade with the Netherlands is being reduced to near-equality so that Belgium is unwilling to reduce restrictions on Dutch imports. Until these obstacles are overcome, progress toward a complete union probably will continue to be slow.

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EUROPE

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N-2.	BELGIUM	
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Political

The Socialist-Liberal coalition, formed following the April 1954 national elections, was made possible mainly by its opposition to the former Social Christian Government's pro-clerical policies. The Socialists and the Liberals differ basically on their economic views, and their program to balance the budget while expanding social welfare benefits may result in sharp conflicts within the coalition. Emphasis on balancing the budget, and the hope for an East-West detente are increasing pressure for a reduction in defense outlays.

No major changes in foreign policy seem indicated. The presence of European-minded Paul-Henri Spaak as Foreign Minister is a gauge of continued Belgian participation in Western European integration, although the general composition of the cabinet indicates less enthusiastic support of integration than heretofore.

The new government acted immediately to fulfill a campaign promise to reduce the compulsory military service period to 18 months from 21 months.

Economic

Increasing competition for world markets is causing concern in the important export industries of the Belgian-Luxembourg customs union. A high rate of unemployment and the need for rationalization of the country's industry are chronic problems. Over-concentration of trade with other Western European countries renders Benelux exports highly vulnerable to any economic recession in Europe. There is growing interest in an expansion of trade with the Soviet Bloc, and internal pressures threaten to weaken the government's hitherto strong enforcement of strategic trade controls.

Military

Although the build-up of the Belgian Army has met NATO goals the reduction in the conscription period and the expected decrease in the number of conscripts available in the next two years may restrict the military program. Morale and leadership are good, but the army lacks sufficient modern weapons and training in their use.

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N-3.	NETHERLA NDS

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Political

No serious internal political problems face the stable four-party coalition, although increased tension between the Catholic and Labor parties within the coalition may be expected with the approach of the 1956 elections. The past year has been marked by emphasis on internal economic and social questions, and 1955 appears to be regarded by the Dutch as a time for consolidation of advances in these fields.

The Dutch are full participants in European integration schemes, and continue to stress the need for further economic integration. Their parliament is scheduled to complete ratification of the Paris Accords by the end of April. While anxious for continued relaxation of international tensions, the Dutch have a wary attitude toward fourpower talks and express some skepticism about the results of such talks.

Dutch-Indonesian friction on jurisdiction over Netherlands New Guinea is a recurrent issue. The US decision not to give strong support to the Dutch in UN discussion of this issue continues to cloud slightly the normally good relations between the US and the Dutch.

Economic

Despite the gradual elimination of Dutch influence in Indonesia, the Netherlands is relatively prosperous and its economy is soundly based for at least the short term. The terms of trade are still developing favorably for the Dutch, and their strong balance of payments position has enabled them to make loans to Belgium and to repay two large dollar loans. Despite efforts by the Dutch to develop new markets, however, 60 percent of their exports still go to Western Europe. Substantial shifts in trade with West Germany, Belgium, or the UK -- the best customers of the Dutch in that order -- would have serious effects on the Netherlands' economy.

Military

The morale among army regulars is low because of the poor caliber of leadership at the top military command level and because of the lack of sufficient modern weapons and training in their use. The army is not yet an effective fighting force, but revised Dutch military plans are expected to increase the number of combat-ready troops over the next few years.

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EUROPE

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N-14.	LUXEMBOURO

Political

As a result of the May 1954 elections, there will continue to be a stable coalition government. It is unlikely that there will be any serious internal political problems and no basic change in government policy is likely.

Luxembourg participates fully in European integration plans and has ratified the EDC treaty.

Economic

Luxembourg has a customs union with Belgium. Its economic problems are similar to those of Belgium.

Military

Luxembourg is meeting its NATO goal of two battalions.

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EUROPE

P. SCANDINAVIA
(Norway, Denmark, Sweden, Finland)

P-1.	NORWAY

25X1

Political

With the support of all non-Communist parties, Norway's recently reorganized Labor government firmly adheres to NATO, although there is continuing reluctance to meet its relatively modest commitments. The Communists' popular vote in the October 1953 elections declined slightly to 5.1 percent of the total. They now hold three seats in the 150-seat parliament.

Public opposition to added defense burdens, based on a latent pacifism, an apparent relaxation in international tensions, and a reluctance to meet increased costs, is growing.

Economic

The Norwegian economy (primarily wood products, fish, and metals) is heavily dependent on foreign trade. With the total commodity trade deficit increasing sharply during 1954, foreign exchange holdings declined substantially, largely as a result of the heavy increase in imports. Moreover, despite a growth in production in industry, agriculture, fisheries and other types of economic activity, with relatively full employment, inflationary pressures and the general price level rise have caused increased concern. This situation has prompted the newly reorganized Norwegian government to abandon its cheap-money policy, curtail investment and generally to tighten economic controls.

Military

The government remains opposed to the establishment of peacetime US-manned air bases in Norway because it fears that the USSR would consider such action provocative. A proposed long-term build-up of indigenous air strength is beyond Norway's economic capabilities. However, Norway has expressed an interest in strengthening the air force through the addition of an air wing to be supplied by the US. The proposed defense budget for FY 1955-56 has been cut more than five percent below that for the preceding fiscal year.

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EUROPE

P-	2.	D	OV	MA	RI

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Political

Democrats, who hold 74 out of the 179 seats in the unicameral legislature (Folketing), generally depend for parliamentary support on the Conservative and Moderate Liberal (Agrarian) parties with respect to foreign policy questions, and on the Radical Liberal party on domestic issues. While the Communist Party's popular vote declined slightly in the September 1953 general elections, it increased its parliamentary representation by one and now holds eight seats in the parliament.

Although a member of NATO, Denmark continues to make one of the smallest contributions both relatively and absolutely. Popular support for NATO has declined and pressures to decrease defense expenditures have increased. During 1954 there was a reduction both in the army conscription term from 18 to 16 months in late 1954 and in the annual quota of conscriptees.

Successful completion of negotiations over Schleswig minority problems should remove a source of friction between Denmark and the Federal Republic of Germany.

Economie

Basically healthy conditions prevailed throughout the Danish economy generally during 1954. Although crop production was down due to poor weather conditions, total agricultural production, including livestock, approximated that of 1953. Industrial production and employment showed gains. However, inflationary pressures increased and Denmark's import surplus in foreign trade in 1954 was nearly double that of 1953. To alleviate this situation parliament has passed several measures designed to curtail consumption, decrease investment and reduce imports.

Total trade with the Soviet Bloc was moderately larger in value and volume in 1954 than in the previous year, despite a breakdown in mid-1954 of trade negotiations between the USSR and Denmark. However, the percentage of total Danish foreign trade with the Bloc remains small, constituting only about 3.8 percent of total imports in 1954. In general, both the government and business interests desire to expand trade with the Bloc;

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moreover, they prefer to limit strategic controls as much as possible and to administer existing controls liberally.

Military

Denmark at present does not permit the stationing of US air units in Denmark during peacetime but continues to permit the US to maintain bases in Greenland. Meanwhile, political and economic obstacles to a long-term build-up of its own air strength continue to be formidable. No radical reduction in defense expenditures seems in prospect for FY 1955-56.

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EUROPE

P <u>-3.</u>	SWEDEN

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Political

The Social Democrat-Agrarian coalition government, which holds 240 of the 380 seats in both houses of parliament, remains securely entrenched in power. Although it adheres to its traditional "alliance-free" foreign policy, it is pro-Western in orientation.

The Communists hold five seats in the lower chamber and three in the upper house. Their political strength, which is concentrated in Stockholm, Goteborg, and the north, continues to be negligible in the country as a whole. In the trade unions they control less than two percent of the locals, mostly in these same areas, but some of these are in strategic trades such as dock workers; in general, however, their influence seems slightly on the decline. Nevertheless, the Communist popular vote increased from 4.3 percent in 1952 to 4.9 percent in the September 1954 provincial and municipal elections.

Economic

The stable, highly-developed Swedish economy reflects prosperity, full employment, and a favorable international balance of payments situation. Sweden favors expanding trade with the Soviet Bloc; however, Sweden continues to restrict voluntarily the shipment of strategic commodities.

Military

While remaining aloof from any formal defensive alliance, Sweden continues to strengthen its defenses, placing greatest emphasis on its air force, which is second only to that of the UK in Western Europe. The defense budget for FY 1955-56 of approximately \$389 million is about the same as that of the previous fiscal year.

Estimate of Probable Developments*

We estimate that Sweden will continue to cooperate informally with the US on such matters as East-West trade controls, but it will almost certainly cling to its "alliance-free" policy as long as possible, even

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^{*} This section, with appropriate updating, is an abstract of NIE-49, "Sweden's Position in the East-West Conflict," 26 March 1952. This estimate remains valid in essential respects.

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in event of war. Sweden would probably mot yield to any Soviet pressures to alter its foreign or military policies; it might, however, make limited economic concessions. Meanwhile, Sweden will continue to maintain fairly effective military forces at a size which it hopes would deter invasion. If attacked by the USSR, the Swedes would resist with all their resources, but they are at present capable of no more than delaying actions against a major Soviet attack.

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EUROPE

P-4.	FINLAND'

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Political and Economic

Since World War II Finland has successfully maintained a position delicately balanced between East and West. The Finns have maintained their national independence, carried on extensive trade with Western nations, and exhibited generally pro-Western political and cultural sympathies. On the other hand, Finland was forced as a consequence of defeat in war to grant considerable economic, territorial, and political concessions to the USSR. The Finns recognize, moreover, that their country occupies a position of great strategic importance to the USSR, and that it cannot successfully defend itself against Soviet attack. For this reason Finland has been obliged to adopt an official policy of strict neutrality, emphasizing "good neighbor" relations with the USSR. The Finnish Government was also constrained in 1948 to sign a Mutual Assistance Pact with the USSR.

Finland's political problems are primarily economic in origin. The country depends heavily on foreign trade. Since World War II its position in the world market has been weakened by the high production costs in the export industry (predominantly wood products). The value of Finland's trade with the West fell sharply in 1952 and 1953, following the collapse of the Korean War boom. Accordingly, the Soviet Bloc's share of Finland's trade increased from the unusually low postwar figure of 16.5 percent in 1951 to 32 percent in 1953. This trend has now been reversed. In 1954 the Soviet Bloc's share in Finland's trade declined to 28 percent, and the UK regained its traditional position as Finland's number one trading partner.

An effective program to deal with this economic problem in the shorter-run would probably have to include a currency devaluation and/or a reduction in wages and social services. However, for several years no single party has enjoyed a majority in the Diet and the different governments which have governed for several years have been handicapped by the divergent economic views of the two largest parties, the Social Democrats and the Agrarians. On

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This section, with appropriate updating, is largely a summary of NIE 28.5-54, "Current Situation and Probable Developments in Finland during 1954," 8 January 1954.

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October, 20, 1954, the latest coalition government was formed with Kekkonen, an Agrarian, as Prime Minister as a result of a Parliamentary rejection of the previous government's economic program. This coalition holds 107 of the 200 seats in the Parliament. The composition of the new Cabinets as in the case with the old, is about evenly divided between Agrarian and Social Democratic members. The country's economic problems are still serious and basic differences still continue to separate the economic views of the two largest parties. However, current economic trends continue favorable and it is unlikely that the basic economic conflicts between the major parties will in themselves cause a reversal of this trend.

There are about 35,000 Communists in Finland. Communists dominate the Democratic League which holds about one-fifth of the Diet seats; they also have considerable labor support. The Communists are not capable of overthrowing the government without overt Soviet assistance.

Military

The Finnish armed forces are limited by the postwar treaty. The army, including Frontier Guards, numbers only 34,400 men; the capabilities of the navy and air force are negligible.

Estimate of Probable Developments

Finnish internal economic and political problems, while serious, are not of crisis proportions. The trend of economic improvement, which was striking in 1954, will probably continue through 1955.

The Soviet Bloc's share in total Finnish trade declined in 1954, and will probably continue to decline in 1955. There is little like-lihood that Finland will become so dependent upon trade with the Bloc as to impair further its ability to withstand unacceptable Soviet demands under economic pressures alone.

It is highly unlikely that the USSR will attempt to invade Finland as a move in the global cold war. It is possible, however, as a consequence of the developing German situation that the Soviets may be moved to invoke its Mutual Assistance Pact with Finland, and perhaps to demand additional bases, radar sites, or other concessions. If the Soviets were to attach attractive bait (such as the return of Karelian territory) to their demands, the Finnish determination to resist would probably be reduced. However, in no case does it appear likely that the Finns, under foreseeable internal and external conditions, would yield to demands which would seriously impair their national independence.

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Therefore it is likely that Finland will continue to maintain the delicately balanced position between East and West which it has occupied since the end of World War II. In the event of war, the Finnish armed forces could delay only briefly a Soviet invasion of the country. However, the political temper of the Finnish people is such that Soviet occupation forces would almost certainly be subjected to determined and intensive guerrilla warfare.

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EUROPE

Q <u>•</u>	ICELAND

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Political

A Conservative-Progressive coalition, controlling 37 out of the 52 seats in the Legislature (Althing), rules in Icel and. In the 1953 elections the Communists suffered their first electoral defeat since 1937, their representation in parliament dropping from 9 to 7 seats, and their percentage of the total vote from 19.5 to 16.5.

A combination of Communists and leftist Social Democrats gained control of the Icelandic Federation of Labor in November. The left-oriented federation leaders, perhaps hoping to increase both their standing with labor and their political influence, have generally followed a more aggressive wage policy and called strikes in March 1955 which had a disruptive effect on the Icelandic economy.

Although a member of NATO, Iceland has no forces of its own.
Moreover, many Icelanders seem little conscious of their country's
ties with NATO, tending to regard the 1951 US-Icelandic Defense Agreement
as an unrelated bilateral agreement, and looking upon the US defense
establishment in Iceland as an occupation force rather than as an integral
part of their own country's defense set-up. Following lengthy negotiations,
agreement was finally reached in May 1954 on changes in the implementation
of the 1951 Agreement. The ceiling on American troops was raised from
3,900 to 6,200, and the US is to construct additional port facilities.
Icelanders are to play a larger role in defense construction activities,
and the movements of American personnel outside agreed areas are to be
further limited.

Despite some improvement in US-Icelandic relations on an official level during the past year, anti-American criticism has increased among certain non-Communist elements, perhaps due somewhat to their conviction of a general relaxation in international tension. Failure to resolve a dispute with the UK over fishing rights has also been a source of friction in relations between the UK and Iceland. Meanwhile, a growth in Communist influence in the trade unions, increased Russian trade with Iceland while the British ban on Icelandic fish continues, and a Russian cultural offensive have probably enhanced Communist influence. However, the Icelandic Parliament reaffirmed its ties with the Western Alliance in December by approving the admission of the Federal Republic of Germany to NATO.

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Economic

The resumption of trade relations with the Soviet Union in 1953 has re-established an important market for Iceland's fish and fish products, which comprise over 95 percent of its exports. The agreement, which was renewed in June 1954 with provisions for further expansion, provides a source for such essential imports as fuel, cements, and grain, which would otherwise require payment in dollars or sterling. Trade with the Soviet Bloc generally, which at present absorbs about one quarter of Iceland's exports, substantially fills the gap left by the British ban on landing fresh fish from Iceland.

Estimate of Probable Developments

Iceland would probably reject any US request for military rights or facilities in addition to those granted in the 1951 Agreement and in the 1954 negotiations. Moreover, in the event of a marked easing of international tensions, Iceland would almost certainly request a significant reduction of US forces stationed there. Fearful lest their racial stock, language, and culture be corrupted by foreign influence, the Icelanders will probably seek in the present circumstances to increase restrictions on contacts between the native population and US troops and civilian workers. However, Iceland's attachment to NATO and its support for its strategic commitments appear firm for the foreseeable future.

Although the 1953 elections inflicted a major electoral reverse on the Communist Party, the increased Communist influence in trade unions, growth of trade between Iceland and the Soviet Bloc, and current Soviet cultural campaign may help to increase Communist prestige. EUROPE

R.	PORTUGAL		

25X1

Political

Portugal is a corporative republic under the presidency of General Francisco Craveiro Lopes. However, Prime Minister Antonio de Oliveira Salazar has exercised authoritarian control over the nation since 1932. Salazar's firm control was manifest in the 1953 national election when all of the 120 National Assembly deputies elected were government-sponsored candidates. Although the moderate epposition pelled 17 percent of the ballets cast in the three districts in which it competed, the opposition failed to elect a single deputy.

Portugal is generally in friendly agreement with US foreign policy objectives. Nevertheless, relations with the US have deteriorated somewhat during the past year because of American refusal epenly to support the Portuguese in their dispute with Nehru over territorial holdings in India. This development could obstruct future negotiations concerning US air base privileges in the Azores and Cape Verde Islands. Portuguese relations with Brazil, Spain, and the UK remain close and Portugal continues to favor Spain's admission to NATO.

Economic

Portuguese living standards are the lowest in Western Europe, although the government has been successful in maintaining the nation's financial and economic stability. Living costs continue relatively stable, real income has risen slightly, and the economic development program showed slow, steady progress in 1954. Exports from metropolitan Portugal for 1954 increased 15 percent in value over 1953 and imports declined 18 percent. The government encourages imports from Western Europe rather than from the dollar area. Gold and dollar holdings at the beginning of 1955 totalled \$464,949,000, an increase of 20 percent over the previous year.

Military

The extensive airbase facilities granted the US in the Azores are Portugal's principal contribution to Western defense. The US has recently initiated negotiations for the use and development of an air force installation in the Cape Verde Islands. The Portuguese armed forces remain inadequately equipped and trained despite US end item deliveries. The three military services total about 53,000 men and have only limited defensive capabilities.

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EUROPE

S. SPAIN*
(See map, Figure VI-S-1)

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Political

Spain is an authoritarian state under the firm control of General Franco, the 61-year old chief of state. Franco has great prestige throughout the country. His position is based upon the support of the Army, the Church, the landowning and business interests, and the Falange. Of these, the most important is the Army, which is firmly under Franco's control. Franco's skill in handling these powerful but disparate groups is a vital element in the maintenance of stability.

Dissatisfaction with the regime is widespread. However, Franco has virtually eliminated organized opposition and his position is probably stronger than at any time since 1940. Spain has been nominally a monarchy since 1947, and although Franco is not yet prepared to share power with a king he is apparently grooming the young Prince Juan Carlos for the Spanish crown. The Communists are relentlessly pursued by the police and their capabilities are negligible; hardcore membership probably is about 3,000. The Anarchists, Socialists, and Basques are forced to carry on most of their limited political activities from abroad, and now appear willing to accept a constitutional monarchy.

Franco's foreign policy has aimed at extricating Spain from the political quarantine largely established by the UN in 1946. His efforts have had considerable success. Most nations outside the Soviet Bloc now maintain formal diplomatic relations with Spain, agreements have been signed with the Vatican and the US, and Spain has been admitted to some international organizations. The agreements with the US provide for the development and joint use of air and naval bases im Spain, and the strengthening of Spain's military posture through economic and military aid. Spain has been informed that the military and economic aid program will amount to \$465 million over a period of four years.

Economic

Spain is a predominantly agricultural country, but it produces many minerals and a wide range of manufactured goods. The level of living is lower than that of any Western European country except Portugal. However, the economy has a considerable potential for growth. Spain is capable

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of providing its population with more and better foods. It has extensive reserves of bituminous coal, lignite, high quality iron ore, mercury, potash, and iron and copper pyrites. The principal limitations on economic development include the low rainfall, the composition of its foreign trade, inefficient agricultural methods, lack of capital for industrial development, and cumbersome and inefficient government controls.

Military

The Spanish armed forces are effectively controlled by Franco and constitute the major element in the regime's control system. The officers and men are generally loyal to Franco.

The Army numbers 335,000 men organized into 19 divisions. Combat effectiveness is fair and the Army can be depended upon to fight courageously to defend the homeland. The Army is capable of maintaining internal security, but not of resisting successfully an invasion in force.

Estimate of Probable Developments

The Franco regime will almost certainly remain in power for some years to come. Political and social tensions in Spain are such that for the foreseeable future Spanish governments will probably have to depend on force to remain in power. Accordingly, the Army will almost certainly continue to play the key role in Spanish politics. Since most Spaniards profoundly fear a recurrence of civil war, there is little likelihood of an attempt to overthrow the Franco regime by force.

At present there appears to be no individual in a position to succeed to Franco's full powers, and when Franco dies or retires it is possible that the sharp differences which exist between the groups supporting him will result in a struggle for power, the outcome of which cannot be predicted. However, the chances are somewhat better than even that a successor government would be able to maintain stability. The likelihood of stability would be greater if a monarch had been installed for some time prior to Franco's death or retirement. Any government likely to succeed the Franco regime will follow policies generally similar to Franco's.

The Spanish economy as a whole will probably show moderate growth over the next few years, if weather conditions are reasonably favorable. However, it is unlikely that there will be any substantial progress toward remedying Spain's basic economic weaknesses, and the economy will remain for many years generally backward.

The offensive capabilities of the Spanish armed forces will probably remain negligible. The Army could only slow an invader at the Pyrenees. However, Spain possesses a large reservoir of military manpower, and US aid will help to modernize the Spanish armed forces and to improve

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their capabilities.

Spanish for eigh policy will aim to enlarge Spain's role in Western European affairs. Spain will continue to cooperate with the US but it will remain a hard bargainer.

It is unlikely that Franco will seek to join NATO. He will probably continue his efforts to strengthen Spanish security by bilateral arrangements. Opposition to close association with Franco is still strong in most NATO countries, but admission of Spain to NATO may become feasible at a later time.

In time of general war, Franco would almost certainly permit the US to use bases in Spain. In addition, he would probably be willing to send troops to fight abroad if he believed that they would not become involved in a general Western debacle.

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EUROPE

T.	YUGOSLAVIA
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25X1

Political

Yugoslavia remains a Communist dictatorship dominated by Tito. Power is concentrated in the hands of Tito and a small group of men personally loyal to him who hold interlocking positions in the government, party, the armed forces, the secret police, and the mass organizations. There is no evidence of significant rivalry among these groups. The regime is still confronted with underlying hostility on the part of most of the people toward Communism, but popular opinion is presently important only insofar as it affects economic productivity.

Since 1950 the regime has made a series of efforts to develop a more flexible, efficient, and popular system of economic and political controls. The drive for collectivization of agriculture has been reversed. Decentralization of planning and supervision has taken place. At the same time a series of "democratic political reforms" were instituted. These included the institution of workers councils, decentralization of the government, and a somewhat less arbitrary exercise of police authority. These concessions, however, have to a large extent proved illusory. The bold program for democratization of the Communist Party announced in November 1952 was sharply curtailed the following June.

Strong sentiment for the liberalization program nevertheless persisted, and erupted in the Djilas affair. In the fall of 1953 Milovan Djilas, then the No. 3 man in the regime, launched a series of articles attacking the despotism of the party. In January 1954 he was severely censured and retired. In December 1954 the whole problem came up again when Djilas and Vladimir Dedijer, Tito's official biographer who had defended Djilas, discussed the affair with western journalists. Both men were tried and given light suspended sentences.

Although the Djilas affair has apparently had little effect on the stability of the regime, and its outcome indicated that Tito is still undisputed boss, the affair reflects major differences in view between the more liberal and more authoritarian elements in the party. Djilas stand almost certainly evoked favorable reactions among some party members and portions of the general public. At the

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same time, however, there are almost certainly others who regard Djilas as a dangerous dissenter. This doctrinaire element is presumably dissatisfied at least to some degree with the dilution of Communism under Tite. As such, it might be susceptible to the lure of realignment with the "first land of socialism." However, there appears to be no organized Cominform resistance in Yugoslavia and no evidence of organized pressure for a return to the Bloc.

Economic

Despite strenuous efforts at forced industrialization, Yugoslavia remains a poor and predominantly agricultural country. Although industrialization has made some progress, growth has been seriously handicapped by: (a) shortage of capital; (b) inexperience and doctrinaire rigidity; (c) the Cominform economic blockade; (d) extremely high defense outlays; (e) a lag in farm production caused by peasant distrust of the regime; and (f) a series of disastrous droughts.

As a result of these difficulties, Yugoslavia has had to depend on extensive Western economic aid, totalling \$464 million in grant aid alone, including about \$360 million from the US, from 1951. The regime was also forced to abandon its over-ambitious Five Year Plan (1947-1951) and to institute a decentralized and less rigid system of planning and controls. The development effort has been concentrated on 150 "Key Projects" giving greatest promise of producing early benefits.

Despite its more realistic program, Yugoslavia continues to face serious problems. In part these arise from continued high eutlays for capital investment and defense (25 percent and 16 percent of GNP respectively). Over-all production has increased, but many of the "Key Projects" are behind schedule. Agricultural production has also lagged seriously. As a result economic growth has been severely retarded, with the estimated figure for FY 1955 only two percent over that for FY 1952. Yugoslavia's balance of payments and foreign debt situation is also serious.

During 1954 a revival of trade with the Bloc took place. If present agreements with Bloc countries are fulfilled, they would account for about 15 percent of total Yugoslav foreign trade. The comparable pre-war figure was 15-20 percent.

Military

Despite the heavy economic strain, the Tito regime is continuing its intensive efforts to build up Yagoslavia's armed forces.

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By far the most important factor has been nearly \$1 billion in US military aid. The Yugoslav military forces and the security police constitute the major elements in the regime's control of the country. The Yugoslav Army of 300,000 men is organized into 29 divisions, two-thirds of which are considered combat ready. The air force, whose primary mission is ground support, is now in the process of conversion to jet aircraft. Principal operational aircraft include approximately 115 F-84G's and 140 F-47D's. By mid-1956 it is planned to have nine fighter-bomber squadrons (F-84G's), and three intercepted day fighter squadrons (F-86's). Yugoslav naval capabilities are limited to coastal operations.

The Balkan Alliance has bolstered Yugoslavia's military position. However, if confronted by a concerted Satellite attack logistically supported by the USSR, Yugoslavia would probably be forced to give up the plain of northeast Yugoslavia. After such a withdrawal some organized resistance could probably be maintained in the mountains with prompt and substantial military support from the West.

Foreign Affairs

Yugoslavia's international position is anomalous. Since 1950 it has slowly but steadily built up its economic, military, and diplomatic ties with the West. It has accepted nearly \$1.7 billion in Western aid. It has reoriented its trade to the West. It has resolved the Trieste dispute with Italy, and has even joined the Balkan Alliance. At the same time Yugoslav leaders continue to emphasize their dedication to Communism, have been suspicious in dealing with the West, and have cultivated such neutral countries as India, Burma, and Sweden. These inconsistencies have been intensified by the "normalization" of relations with the Bloc since Stalin's death. Full diplomatic relations have been restored, trade pacts have been signed, and the virulent propaganda campaign by both sides has ceased.

Thus far, however, there is little indication that Yugoslavia is succumbing to Soviet lures. The persistent and unsubstantiated allegations that a secret Moscow-Belgrade deal has already taken place cannot be wholly discounted but it is highly improbable that they are true.

Estimate of Probable Developments

The dominant concern of the Tito regime will probably remain that of insuring its own survival and avoiding foreign domination.

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The principal aim of Yugoslav policy is the achievement of beneficial relationships with both power camps with a minimum of commitments to either. Since Tito recognizes that war between the two major power blocs would take his regime in jeopardy, he will also seek to promote policies aimed at reducing the risk of war. Although Yugoslavia will probably continue to maintain "normal" relations with the Bloc, it will probably not return to the Bloc at least so long as Tito remains in power. The Tito regime would be likely to return to the Bloc only in the event that the USSR had already revised its policy toward the Satellites to such an extent as to convince Tito that Moscow was willing to permit relations on a basis of equality. Such a basic change in Soviet policy is highly unlikely during the foreseeable future.

Although some degree of political ferment will almost certainly continue, no major threat to internal stability is likely to develop so long as Tito is alive. His death, however, would be a serious blow to the regime. At least at the outset, a successor regime would probably seek to carry out Tito's policies. However, Yugo-slavia's orientation would be uncertain if there were a disruptive struggle over the succession or a subsequent deterioration of the regime's strength and unity.

Assuming a continuation of some external aid and credits and reasonably good harvests, Yugoslavia's longer-term economic prospects appear favorable. In the short run, however, Yugoslavia will still face the basic problem of how to balance its foreign accounts while pursuing an ambitious development program and making heavy defense outlays. The Tito regime will probably continue to rely on foreign aid and further rescheduling of foreign debt payments to meet this problem. It probably estimates that Yugoslavia's strategic importance will compel the US to continue aid. Curtailment of this aid would thus make serious readjustments necessary. Even though it would probably not critically endanger the Yugoslav economy except in the event of further droughts, the political repercussions might affect Yugoslavia's internal and foreign policies.

The present Yugoslav regime would probably prefer to remain neutral in the event of general war, but probably has little confidence that it could successfully do so. Yugoslavia would probably feel compelled to fight on the side of the West if its Balkan allies were attacked, but if the Balkan area were not invaded it would probably elect to remain neutral as long as the international situation would permit.

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A. Over-All Situation

(See map, Figure VII A3)

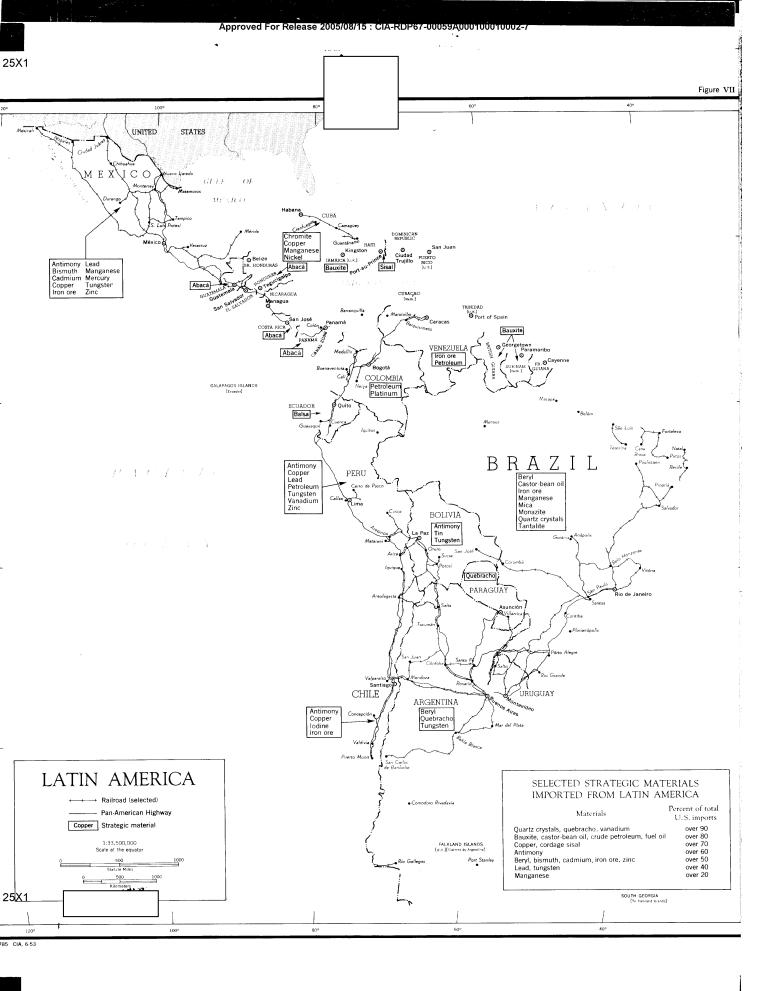
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NIE-70, "Conditions and Trends in Latin America Affecting US Security," 12 December 1952, remains substantially valid with respect to basic considerations, but is out of date in circumstantial detail. It is in process of revision, with the new estimate scheduled for publication about 1 July.

The current situation in Argentina, Bolivia, Brazil, Colombia, Guatemala, Venezuela, the Caribbean Republics, and the European Dependencies in the Caribbean Area is treated in the sections which follow.

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LATIN AMERICA

B.	ARGENTINA "

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Political

President Peron has the active political support of a substantial majority of the population, the bureaucracy, and many industrialists. He has also firm control of the armed forces, the police, the principal labor organization, the Peronist Party machine, the national Congress, and the provincial governments. He has extensive decree and police powers and has, in effect, a monopoly of all media of public information. There is no effective organized opposition which could displace Peron, although Communist and other opposition groups are trying to exploit labor dissatisfaction over wages and the church-state dispute, which has caused considerable confusion among Peronistas.

Peron's early 1953 decision to abandon his former anti-US foreign policy and propaganda in favor of rapprochement with the United States was strongly and favorably tested in June 1954, when he firmly supported American efforts to convoke a hemisphere conference on Communism in Guatemala, despite the unanimous protests from the opposition and from important elements of his own party. This development gave further evidence that Peron himself has become the main Argentine support for US policies and that the opposition, unaware of or indifferent to the dangers of international communism, continues its hostility to basic policies of the US.

Peron's motives in seeking closer relations with the US and stressing the value of Argentina as an anti-Communist force appear to be:
(a) to attract American investment and long-term credits; (b) a desire for US military aid, indicated by his recent speeches emphasizing the impossibility of neutrality in a third world war; and (c) to induce the United States to adopt a benevolent attitude toward Argentine aspirations for a dominant position in southern South America, a position of leadership in Latin America, and a more important voice in world affairs. Peron's "Third Position" has been soft-pedaled during the past year. Argentina maintains diplomatic and trade relations with the USSR, and most of the European Satellites.

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This section, with some updating, is largely a summary of NIE 91-54, "Probable Developments in argumenta," 9 March 1954.

Peron's attitude toward Communism appears to have changed significantly during 1954. He has shown concern over penetration of his own party, and in June, following Communist-led labor violence, stepped up arrests of Communists. The Argentine Communist Party, numbering about 35,000, has little popular support and has had virtually no success in infiltrating the armed forces; it has, however, infiltrated the politically-powerful General Confederation of Labor and to a limited extent the bureaucracy and official press. A small group of dissident Communists advocate opportunistic collaboration with Peron, who tolerates them.

Economic

Economic conditions have improved since the severe droughts of 1951 and 1952. In 1953 and 1954, there was a favorable balance of trade, an increase in the government's gold reserves, and a reduction in its short-term foreign indebtedness partially due to continued restrictions on imports. Inflation was checked by strict management of credit and by freezing prices and wages. These gains, however, were not sufficient to arrest the basic economic decline of the past several years, and Peron still faces many pressing economic problems. Agricultural costs are inflated and productivity is low. Industrial production is hampered by obsolescence of plants and equipment, by tight credit restrictions, and shortages of imported raw materials. Moreover, Argentina lacks sufficient financial resources to import agricultural and industrial equipment needed to increase production to support the country's rapidly expanding population. Argentina is also intensely concerned that its vitally important export earnings, derived mainly (93 percent) from agricultural products, may be critically reduced by competition from American surpluses. During the past year Argentina has substantially increased trade with the Soviet Bloc to dispose of its surpluses and to obtain nondollar imports. However, Bloc exports have lagged and by 1 January 1955, Argentina's credit balances with the Bloc had reached \$51,000,000.

The second Five-Year Plan (1953-57) envisions major development projects in transportation, fuel, and power, but agricultural production is receiving priority. Peron could probably finance the domestic costs of the plan without resort to inflationary measures by using social security funds and reducing normal government expenditures, but foreign credits would be necessary for imports of capital goods. The Export-Import Bank granted a joint government-private steel corporation a \$60,000,000 loan in March 1955. The USSR promised Argentina a \$30,000,000 credit for capital goods under their August 1953 agreement, but so far no deliveries are known to have been made.

Military

The Argentine armed forces have an estimated strength of 145,000. Training and equipment are high by Latin American standards, and are more than adequate for the maintenance of internal security. In the event of general war, Argentina would be capable of providing one or two army divisions for use outside the country, but they would lack equipment and training. The combat effectiveness of the navy and air force is low.

Estimate of Probable Developments

Barring a serious crop failure or seriously adverse change in the terms of trade, Peron can probably achieve a gradual improvement in the economic situation during the next several years. It is unlikely, however, that Argentine foreign exchange earnings will be sufficient to finance the present Five-Year Plan.

Peron will probably continue his policy of rapprochement with the US as long as his internal political position remains secure and as long as collaboration with the US appears to favor the realization of Argentine national aspirations. He will almost certainly continue to curb Communist activities.

If Peron should conclude that his rapprochement with the US was proving unproductive, or if the Argentine economic situation should so deteriorate as to threaten the stability of the regime, Peron would probably revert to a demagogic internal policy and an antagonistic foreign policy. Such developments would probably result in some increase in Communist influence, but Peron would not be likely to permit the Communists or any other group to become serious competitors for his power.

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LATIN AMERICA

C.	BOLIVIA*

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Political

Bolivia is one of the most economically backward and politically unstable countries in Latin America. The present National Revolutionary Movement (MNR) regime is one of the few broadly based governments which Bolivia has had. It enjoys wide pepular support and has formulated a broad program of economic and social reform. It has undermined the power of the old ruling groups by purging the army and creating its own militia, by nationalizing the tin mines, and by instituting agrarian reform. It has broadened the electorate and is making efforts to organize rural labor, although progress in such organization has been limited.

While the general orientation of the MNR is left-of-center, dominant influence in the government is now exercised by the party's moderate wing, composed largely of middle class elements led by Vice-President Siles Suazo. President Paz Estenssoro is inclined toward this faction. Should Paz be removed from the scene, Juan Lechin, formerly Minister of Mines and Petroleum and leader of the more radical labor wing, would probably succeed him, although not without some opposition.

Two small Communist parties, the Stalinist Communist Party of Bolivia (PCB) and the Trotskyite Revolutionary Workers Party (POR), are currently active. An appraisal of their actual strength is extremely conjectural; however, the two parties together may number about 3,000. The PCB is strongest in the school system and among workers in La Paz, while POR strength is concentrated among the mine workers. At first the MNR, threatened by the right, hesitated to launch a frontal assault on the Communists, but since October 1953 it has made increasing attacks on both parties, particularly on the PCB.

The rightist Bolivian Socialist Falange (FSB), a small but militant ultra-nationalist group drawn mostly from conservative elements among the middle class, constitutes the chief opposition to the MNR. The FSB denounces the MNR as Communist-dominated and seeks to overthrow it in favor of an authoritarian conservative regime.

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^{*} This section, with some updating, is based largely on NIE 92254, Probable Developments in Bolivia, 19 March 1954.

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The FSB has so far been unable to gain much popular support, however, and its present capabilities for a coup are limited.

Bolivia's policy toward the US is primarily determined by its desire for US economic support. Nevertheless there has been a general tendency to blame alleged US "imperialism" for backing tin interests and for not helping Bolivia sufficiently, especially in times of economic stress. As a result of substantial US economic aid, however, the MNR has become increasingly pro-US in its outlook. Furthermore, it has traditionally supported the US on international issues. The MNR's program has aroused much sympathetic interest in Latin America.

Economic

Bolivia's economic growth is hampered by formidable obstacles to communications, poor living conditions, lack of investment capital, and Indian resistance to change. Although two-thirds of the population is engaged in agriculture, most farming is on a subsistence level; thus Bolivia has to import a large part of its food.

Bolivia's economy is largely dependent upon mineral exports, mostly tin, antimony, and tungsten. Tin exports have normally supplied about 70 percent of Bolivia's foreign exchange and 90 percent of government revenues. Bolivia is an increasingly marginal tin producer, however, and highly vulnerable to fluctuations in the world tin market. Currently the cost of mining Bolivian tin exceeds the price on the world market. Deficit financing, moreover, has resulted in a serious inflationary situation. The cost of living index in December 1954 was 411 (April 1953 = 100).

The MNR has launched an ambitious long-range program to expand and diversify the economy. With respect to petroleum, this program has been successful. Bolivia attained self-sufficiency in petroleum production early in 195h, and by August 195h production had been increased to provide for a small surplus, most of which is exported to Argentina and Chile. The MNR's plans to increase agricultural production, however, will require at least three more years to produce appreciable results. The MNR has, however, by a variety of financial manipulations, and above all by securing large-scale emergency US aid, temporarily staved off economic collapse.

Mili tary

The only significance of Bolivia's extremely weak military and paramilitary forces lies in their ability to influence the domestic political situation. At present the MNR firmly controls all three

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components of Bolivia's forces — the army (which includes the air force), the police, and the civilian militia. No one of these groups could seize power if both others opposed it, but any two of them combined could almost certainly seize power.

Estimate of Probable Developments

With emergency US aid (\$18,070,000) assured through mid-FY 1955, and an estimated \$16,000,000 proposed for FY 1956, the MNR will probably continue its present moderate course without any serious threat to its continuance in power.

Should external aid be discontinued, however, the government would soon face an economic crisis and its stability would be threatened. Anti-US sentiment would almost certainly increase. The MNR's leftist-labor wing would probably demand and receive an increasingly important role in the government. Should this leftist faction gain a controlling voice in the government, possibly with Communist support, the regime would lose much of its moderate support and would be short-lived. The rightist FSB would probably be able over a period of time to amass sufficient backing to bring off a successful coup.

The basic weakenesses of the Bolivian political, economic and social structure are such that no Bolivian government will be able to prevent recurrent unrest and economic crises, and some degree of political instability will persist for some years to come.

Political and economic deterioration would almost certainly increase Communist strength. However, the Communists alone could not gain and maintain control of Bolivia in the foreseeable future.

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LA TIN AMERICA

D. BRAZIL*

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Political

The suicide of President Vargas in August 1954 and the succession of the moderate-conservative Cafe Filho administration have not resulted in any fundamental change in the Brazilian situation. The present political situation is affected by persistent social unrest, particularly in urban areas, and is aggravated by uncertainties relating to the presidential election to be held in October 1955.

Cafe Filho's known personal integrity and political independence raised hopes that he might succeed where Vargas had failed in providing effective solutions for Brazil's politico-economic difficulties. Although himself politically left of center, Cafe had come to power with the support of the moderate-conservatives and the military. His cabinet includes representatives of all the principal parties as well as men without party affiliation. For the first time in recent years the Brazilian cabinet is composed predominantly of men of high intellectual and moral character, concerned primarily with the national welfare rather than with personal or party interest.

As was the case with its predecessors, the new administration's most pressing problems are economic, particularly the foreign exchange shortage and inflation. It has attempted to meet them by advancing a program of retrenchment and austerity such as no Brazilian government has hitherto dared to propose. In large part, however, the administration's retrenchment program has been frustrated by lack of support in Congress. Inflation has not been substantially retarded.

The October 1954 congressional elections failed to provide a clear mandate for or against the Cafe program. The moderate-conservative parties retained a combined majority in Congress and could enact the Cafe program if they united to do so. Party discipline in Congress is lax, however. Moreover, party politicians are understandably disinclined to vote for tax increases, credit restrictions, reduction of agricultural price supports, or curtailment of working class benefits in a presidential election year.

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^{*} This section is a summary of NIE 93-55, "Probable Developments in Brazil", 15 March 1955.

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Party preparations for the presidential election to be held in October 1955 are taking place in unusual circumstances. For twenty-five years, Brazilian politics have taken the form of support for or opposition to Getulio Vargas; his death removed the accustomed point of reference and made his labor-leftist following leaderless. Otherwise moderate politicians, however, realizing that the labor-leftist vote will probably determine the outcome of the election, are now competing for this following. On the other hand, the armed forces are taking a greater than usual interest in politics. They are strongly opposed to the election of a Vargas-associated labor-leftist, and, if political developments should tend toward that result, they might intervene to prevent the election of such a candidate.

The Brazilian Communist Party (PCB) lost strength after it was outlawed in 1947. However, since 1951 (when Vargas returned to power), and especially during the last two years, it has had remarkable success in raising funds and recruiting new members. It is now estimated to have 100,000 to 120,000 members and a much larger number of sympathizers. The Cafe administration has taken some action to neutralize this Communist infiltration. Military officers of known Communist sympathies have been retired or reassigned; known Communists among the enlisted personnel are being court-martialed. Communists are also being removed from positions of labor union leadership. As yet, however, little has been accomplished toward removing Communists from the bureaucracy or from elective public office.

Economic

Brazil has the greatest economic potential of any country in Latin America. Territorially larger than the United States, it has a fast-growing population of about 58 million, which is about double that of the next largest Latin American republic (Mexico). Brazil's economic growth since 1930 has been rapid. Since the end of World War II gross investment has amounted to about 16 percent of GNP annually, the overwhelming proportion of which has been devoted to industry and construction. GNP increased about five percent annually from an estimated \$10.8 billion in 1950 to \$12.5 billion (at 1950 prices) in 1953.

The rapid growth of the Brazilian economy has occurred under conditions of uninterrupted inflation. In the last 15 years, the cost of living has been increasing at an annual rate of more than 16 percent; in the first 11 months of 1954 the cost of living rose 22 percent. Prices at the end of 1954 were about 770 percent above those for 1939. The inflation has been the result of several factors. For some years prior to 1947, it was stimulated by the accumulation of substantial foreign exchange surpluses, which Brazil was unable to convert into consumers' goods. Since 1947, domestic factors such as government deficits and the expansion of credit have fostered the inflation. Of considerable importance also has been the fact that a large proportion of investment was of the long-term variety which did not result in an increased output of consumers' goods.

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Brazil's effort to maintain the rate of industrialization, even at the cost of severe inflation, has led to recurrent foreign exchange shortages. In order to permit domestic industry to purchase its needed imports cheaply, a highly inflated value for the cruzerio was maintained. This over-valuation caused a weakening of the competitive position of Brazilian exports and a concurrent loss of foreign exchange. At the same time expansion of industry stimulated Brazil's demand for raw materials, capital goods, and fuels, most importantly petroleum. Although industrial production was able to provide significant foreign exchange earnings during World War II, during the postwar period it was unable to compete with the older industrialized countries, in part because of the over-valuation of the cruzeiro. In the same manner, although the Brazilian Government has insisted in recent years that new foreign investment be "constructive," it has given greater emphasis to further industrialization than to investments that would produce foreign exchange. Consequently the drain on foreign exchange resources caused by Brazil's rising industrial production has been unmatched by new foreign exchange earning power.

Military

The Brazilian armed forces, organized and trained on US lines, have an over-all strength of approximately 204,000. The army, numbering 108,000, consists of 7 infantry, 1 armored, and 4 cavalry divisions, numerous separate combat units, and supporting troops. In addition, there are 55,000 militarized police available for local and regional use. The navy, with a personnel strength of 21,000, has a combat force of two light crusiers, seven destroyers, and 32 smaller escort, patrol, and mining vessels. The air force, with a personnel strength of 20,000 (including about 1,000 pilots), maintains five fighter, two light bomber, two patrol, two reconnaissance, and two transport squadrons. It has about 950 combat, reconnaissance, and transport aircraft, including 68 British jet fighters.

The operational effectiveness of the three combatant services is high by Latin American standards as a result of their reorganization, reequipment, and operational experience with US forces in World War II, and of the assistance of US military missions. Their effectiveness is impaired, however, by a lack of adequate support facilities, poor maintenance and general obsolescence of equipment, and dependence on foreign resources for resupply of material, munitions, and fuel.

The Brazilian armed forces are adequate to maintain internal security and to deter aggression by any neighboring power. In the event of general war, they could probably protect strategically important installations and facilities from extensive sabotage and from possible raids. The Brazilian Navy and Air Force have limited convoy escort and antisubmarine warfare capabilities, but effective patrol of the long Brazilian coast would require the active participation of US forces. With US logistical support the army could provide a small expeditionary force.

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Estimate of Probable Developments

The new president to be elected in October is likely to be a man committed to meet labor-leftist demands, assuming that free elections are held. The strongest labor-leftist candidate is Juscelino Kubitschek, governor of Minas Gerais and a former adherent of Vargas. The election of such a man is likely to create a political situation similar to that which existed under the Vargas regime; i.e., chronic political tension between the executive and moderate-conservative elements in Congress and especially in the armed forces. The military would be confronted with a hard choice between condoning further evolution to the left or immediately imposing a government to their liking.

A moderate-conservative could be elected in a free contest only if the labor-leftist vote were seriously split. Such a candidate, elected with multiparty backing and the approval of the military, could probably enlist sufficient congressional cooperation to effect some improvements in the economic situation. A moderate-conservative regime would be unlikely to antagonize politically vocal conservative elements, and would be in a position to employ force, if necessary, to suppress social unrest.

There is little chance that the administration to be elected in October will be able to deal effectively with Brazil's deep-seated and politically dangerous economic difficulties. In fact, as long as any Brazilian administration assumes that dollar loans are readily available, there is little likelihood that it will incur the political risk involved in stabilizing the economy. However, the administration would be even less willing to follow politically dangerous policies in the absence of dollar loans. Rather, it would be under extreme pressure to seek radical, nationalistic solutions to Brazil's economic problems. In any case, effective action over an extended period will be required to stabilize the Brazilian economy.

For some time to come, the Brazilian Communist Party will probably continue to increase in numbers and political influence. It is unlikely, however, that the party could, within the foreseeable future, gain sufficient strength to take control of Brazil by electoral means or by force.

Brazil will almost certainly continue to support the US on major issues between the US and the Soviet Bloc, but, if not granted the special consideration to which it feels entitled, with particular reference to dollar loans, may pursue an increasingly independent course. Brazil will seek to establish closer economic relations in Latin America and with Western Europe, and will also seek to increase its now minor nonstrategic trade with the Soviet Bloc.

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LATIN AMERICA

E.	CHILE

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Political

The regime of President Carlos Ibanez has been characterized by chronic instability since its inauguration in November 1952. The President's lack of an effective majority in both Congressional chambers and the unwillingness of opposition parties to be represented in his cabinets have inhibited support for any program designed to arrest the deteriorating economic situation. The inability of successive cabinets to cope with Chile's severe inflation and organized labor's fear that Ibanez is seeking to undermine the independence of the labor movement, has resulted in the regime's loss of its widespread popular support. This critical situation has given rise to frequent reports that Ibanez would assume dictatorial control of the country. However, in December 1954, when Congress rejected his declaration of a state of siege, and during the ensuing political crisis, Ibanez did not carry out his threat to dissolve Congress and rule by decree. He is believed still reluctant to abandon constitutional procedures.

The Communist Party has been outlawed in Chile since 1948. However, an estimated 30-35,000 Communists continue to masquerade behind the "People's Front." Despite Ibanez' personal antipathy toward Communism and his increasing verbal attacks on its adherents, their cause has been aided by Chile's political fragmentation and by popular apathy toward the threat of international Communism. The Communists have infiltrated labor circles and often wield more influence than their numerical representation would indicate. The Communist daily, EL SIGLO, is the only important Chilean newspaper to carry any labor news. Moreover, the Communists retain some capabilities for sabotaging the copper and other strategic industries.

Chile's foreign policy is largely conditioned by economic factors. Chile has traditionally supported the US on international issues, although it has recently shown a tendency to align itself against the US on issues affecting the economies of underdeveloped countries. Although some elements in the Ibanez administration favor reestablishment of diplomatic and trade relations with the Soviet Bloc, they have been overruled by Ibanez. Chile has formally promised the US that it will sell its copper only in Western markets and is cooperating to prevent the transshipment of strategic items to the Bloc.

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Chile maintains close economic relations with Argentina as the two economies are complementary; however, it is not likely to follow Argentine political leadership.

Economic

The principal weakness of the Chilean economy is its heavy dependence on its extremely variable export trade. Fluctuation in world demand for Chilean copper and nitrates, which account for the major portion of its export values, have disturbed domestic business activity and the country's international balance of payments. Inflation has characterized the domestic economy for many years. In the early post-war years the inflation was caused by governmental emphasis on rapid industrialization through large long-range development programs, accompanied by a neglect of foodstuff and consumer goods production. More recently, disproportionate wage and social security payments have provided the chief impetus to inflation. The January 1955 cost of living index figure was 560 (1948, 100). Even if agricultural production, which employs 40 percent of the labor force, were increased through large-scale foreign aid, the country's economy would remain highly vulnerable because the copper industry accounts for about 70 percent of Chile's total dollar exchange earnings and for a large share of its budgetary revenue. Recent higher prices for copper, currently in short supply on the world market, may alleviate but will not solve the exchange problem.

Military

The armed forces, including the National Police, total about 73,000 men, a strength surpassed in Latin America only by Brazil and Argentina. These forces are capable of maintaining internal security. Communist efforts at penetration thus far have been unsuccessful.

Estimate of Probable Developments*

Ibanez's most pressing problem is inflation. Unless he deals energetically with the deteriorating economic situation, the wage price spiral will continue, accelerated by demands of workers. His capabilities in dealing with this problem will continue to be limited

^{*} This section, with some updating, is based in part on NIE-85, "Probable Developments in Chile," 24 August 1953.

by his lack of an effective majority in Congress and the diversity of his political support. No permanent solution of the problem of inflation is possible without a substantial increase in Chilean production of consumer goods. Such an increase would require large-scale foreign financial aid; there is no assurance that such aid will be forthcoming or that it would be put to effective use.

The critical economic situation and deteriorating executivelegislative relationships constitute threats to continued political
stability. While Ibanez has threatened to close Congress and rule
by decree if Congress should refuse his request for special powers
to combat Chile's economic ills, and it is possible that he may do
so, the probability is that he will continue to observe constitutional procedures. Should Ibanez attempt to rule by decree it would
provoke considerable popular resistance, but initially he would
probably receive the support of the armed forces and be able to control the situation. Another possibility is that Ibanez, in the face
of a desperate economic and political situation, may resign. If he
were to resign the constitution provides that within ten days of
his leaving office the acting president (Minister of Interior) shall
fix a date not more than 60 days in the future for an election to
select a new president.

It is not likely that Ibanez, in the face of desperate economic and political circumstances, would nationalize the largely foreign-owned copper industry. Long-pending legislation to provide more equitable treatment for US copper companies in Chile, which is now awaiting final Congressional action (expected to be favorable), probably will improve somewhat the financial position of the copper companies. Government taxes, however, would remain high. Should the free world market price of copper decline, there probably would be increasing pressure to sell to the Bloc.

Communist subversive tactics could contribute substantially to further deterioration of Chile's political and economic situation; however, the Communists alone could not gain control of the government in the foreseeable future.

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LATIN AMERICA

F.	COLOMBIA
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Political

President Rojas Pinilla took power in June 1953 as a result of a widely popular and bloodless coup. This coup was the culmination of five years of repression and guerrilla warfare. He was elected by the Constituent Assembly to begin a four-year term in August 1954. However, his generally inept government, together with his statement on 1 January 1955 that the state of siege imposed in 1949 would continue throughout his term of office, have antagonized both the opposition and his own Party allies. Private and veiled public criticism of his personal financial affairs has brought further discredit to the regime which has increasingly lost prestige and popularity during the last year.

The Constituent Assembly, representing various factions of the Conservative Party, the armed forces and the clergy, converted itself into the national representative body for a term covering the next four years. It also voted to suspend elections for state and local councils and to fill these positions administratively. The Assembly has been boycotted by official representatives of Colombia's opposition party, the Liberals, who demanded equal representation in the absence of popular elections. Although Rojas increased Liberal representation in response to this demand, he filled these seats with more pliable Liberals of his own choosing rather than persons recommended by that party's national directorate. Nevertheless, the Liberal Party directorate continues to affirm its support of the Rojas administration. It also appears that Rojas feels uncertain of his ability to control his own widely-split Conservative party including certain elements of the clergy and the armed forces.

A new draft action and policy program for the small Communist Party lays new emphasis on the "democratic front of national liberation" with more expanded objectives than have been heretofore admitted. The Party's reactivation has been facilitated by increased popular dissatisfaction with the Rojas regime, which is becoming increasingly totalitarian. Although the Party is not illegal, the Constituent Assembly in September 1954 did outlaw "international Communism."

Colombia traditionally supports the international policies of the United States -- partly because of strong economic ties. The present government appears eager to increase Colombia's international

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influence and to strengthen its ties with other Latin American governments. Colombia was the only Latin American country to send troops in support of the UN action in Korea.

Economic

Colombia's unprecedented prosperity during the first six months of 1954 was substantially modified during the last quarter of 1954 when reduced coffee sales and lower coffee prices together with a high level of imports caused a substantial reduction in Colombia's foreign exchange reserves. With the restoration of import restrictions, gold and dollar reserves have once again increased, and the country has achieved a more favorable economic position.

Chronic inflation continues however, and the dislocations caused by the 1948-1953 guerrilla warfare have not been completely overcome. The climate for foreign investment remains good and new American and European capital has entered the country at an increased rate during the past year.

Military

Although a small number of the army's 33,000 officers and men appear still influenced by ex-President Gomez, the majority is believed still loyal to President Rojas.

The Colombian battalion and frigate in Korea had a good record. The effect of this training on the army's previously limited capabilities for maintaining internal order has not yet been assessed. Colombia is one of the eleven Latin American countries which has a bilateral military pact with the US and is currently interested in obtaining additional military equipment.

Estimate of Probable Developments

Although President Rojas still has the support of the armed forces, political tensions in Colombia are likely to grow as official and popular dissatisfaction with the increasingly inept and totalitarian Rojas regime intensifies. Should Rojas permit the return from exile of widely hated arch-conservative ex-President Comez, disaffection in the armed forces might increase. Civil disorders and acts of sporadic banditry may also increase. Should the situation become critical, Rojas would probably be ousted by the armed forces and replaced by another military figure.

Such a development would probably not substantially adversely affect Colombia's strong economic position, or its pro-US orientation. However, growing popular dissatisfaction with the regime will facilitate Communist capabilities for increased political action.

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LATIN AMERICA

G.	THE	CAR IBBEAN	REPUBLICS
			

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Basic Conditions and Trends

The Caribbean Republics are characterized, in varying degrees, by economic underdevelopment and political instability. In most countries, the majority of the population is illiterate, politically naive, and bound to a very low standard of living. Politics have traditionally revolved around personal rather than public issues: the favor of the army has usually been the decisive political factor; and the rule of military "strong men" has been frequent.

During recent years, there has been a steadily increasing demand for social, economic, and political change throughout the area, voiced by small but growing middle class elements with increasing popular support. The pressure for reform has not been uniform, however. It has been continuously apparent in Cuba since the overthrow of Machado in 1933. In Guatemala, the overthrow of Ubico in 1944 was followed by a revolutionary reform movement which by 1954 was openly allied with the Communists. In El Salvador, the liberal revolution of 1944 overthrew a dictator, and that of 1948 established a relatively popular, though military, government. In Honduras, there has been a gradual transition from the authoritarian rule of the "strong man" Carias to a more popular government. However, the pressure for reform has frequently led -- directly or indirectly -- to the development of authoritarian regimes such as those now existing in Cuba, Haiti, the Dominican Republic, Nicaragua, and Guatemala.

The pressure for popular participation in government will continue to grow. For the moment, however, authoritarian regimes are in the ascendant. Political stability will depend in large measure on whether the existing regimes can bring themselves to promote social, economic, and political progress, or whether, through static repression, they make virtually certain an eventual violent explosion. In any case, no substantial improvement in basic conditions is likely to occur for many years.

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Existing Political Regimes

Cuba is ruled by a military "strong man", Fulgencio Batista, who gained control of the Cuban Army in 1933. Batista has been in and out of politics since then. In 1952 he seized power in an Army coup. He proceeded to suspend the Congress, to dissolve the existing political parties, and to promulgate a new constitution by decree. The general elections of November 1954 reinstalled Batista as "constitutional" President for a new 4-year term.

The stability of the Batista regime depends upon the continued support of the Army, which seems assured. In addition, Batista has some popular following, primarily among lower class elements. Although the Batista regime is generally unpopular, political opposition to it is disorganized and ineffectual. All efforts to form a united front of the many opposition elements have failed.

Haiti is ruled by another military "strong man", Paul Magloire, formerly commandant of the palace guard, who ousted his predecessor by coup in 1950. He has the local situation well in hand.

The Dominican Republic is ruled by the most durable "strong man" of the Caribbean, Generalissimo Dr. Rafael Leonidas Trujillo, "Benefactor of the Fatherland". He has been in effective control since 1924, but now maintains his brother, Hector, as nominal president of the republic, which is administered, in substantial effect, as the private estate of the Trujillo family.

Guatemala: See Section VII-H.

The President of El Salvador is Oscar Osorio. In 1948, as a junior army officer, he led a coup which overthrew his dictatorial predecessor and established a liberal and progressive, but not radical, regime. Political stability in El Salvador is now beginning to be adversely affected by the approach of the presidential election scheduled for March 1956.

Dr. Julio Lozano is President of Honduras. Because of the inconclusive October 1954 general elections and Congress' failure to select a president, former vice-president Lozano quietly assumed absolute powers as Chief of State on 6 December 1954. Although he has the nominal support of the three Honduran political parties, the necessity to compromise with the left and far right (Carias machine) makes difficult his administration of the government and implementation of the 5-year economic development program to which he is committed.

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The "strong man" of <u>Nicaragua</u> is Anastasio Somoza, who has been in effective control of that country since 1932. His prestige has fallen as a result of the failure of his attempt to overthrow the Figueres regime in Costa Rica; there are reports of a conspiracy to oust him prior to the Nicaraguan presidential election scheduled for 1957. It is probable, however, that Somoza will be able to maintain his control of Nicaragua.

In contrast to its neighbors, Costa Rica has a long tradition of orderly democratic government. President Figueres, the somewhat erratic leader of a group of young reformists, was elected in 1953. Although a man of rather advanced socialistic ideas, he and his administration are definitely anti-Communist. The thwarting of a revolutionary attempt led by exiled conservative ex-President Calderon Guardia with Nicaraguan and Venezuelan clandestine support in January 1955 has left Figueres internal and international position stronger than ever before. Tension in the area has not been lessened as a result of OAS action under the Rio Treaty in support of the democratic regime of Figueres, for Perez of Venezuela and Somoza of Nicaragua still harbor an intense dislike for him.

Because of the assasination of former President Remon of Panama in early January and the alleged implication of his vice-president in the murder, former second vice-president Ricardo Arias, with the strong support of the national guard, became President in mid-January 1955. He has pledged himself to carry forward the internal economic improvement and pro-US policies of Remon, and has succeeded in obtaining Panamanian ratification of the long-negotiated Canal Zone Treaty. However, the political situation in Panama remains highly unstable.

Communist Strength and Influence

Communist political parties are illegal in all the Caribbean Republics, but Communist activities are carried on clandestinely. The strength of Communism throughout the region is numerically small. There are perhaps 65,000 Communists and Communist sympathizers out of a total population of 21,000,000 and probably less than 35,000 Communist Party members. Nevertheless, there is a real danger, growing out of the confused and unchanneled character of the slowly rising pressure for reform, that Communists will be able (as they were in Guatemala) partially to infiltrate or to influence economic groups, reform movements, reformist regimes, and politically ambitious individuals or groups, and thus to acquire in particular

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countries an influence wholly disproportionate to either their numbers or the popular acceptance of their doctrines. Throughout the region the Communists will continue to make the most of plentiful opportunities for agitation.

Guatemala is the prime example of successful Communist subversion. The possession of a Jecure base in Guatemala greatly enhanced Communist capabilities throughout Central America.

Since the Communist reverse in Guatemala, the Popular Socialist Party (PSP) in Cuba has become the most influential Communist Party in the area; it is also the largest. Although Batista is aware of the strength of the Communists in Cuba, who have some 25,000 party members and many more sympathizers, he has not taken drastic pressures against them, and the party remains well-organized.

Elsewhere in the area the development of Communist potentialities has been held in check, although the situation is far from satisfactory in Honduras.

In Caribbean and in other Latin American opinion, the issue of social and political reform versus traditional authoritarianism is of greater immediate importance than the question of Communism or anti-Communism. The reformists contend that the United States has a moral obligation to foster social and political development in the area. On the other hand, the Caribbean "strong men" resent any indication of US support for reformist regimes as a betrayal of the "true friends" of the United States. It is a primary Communist objective to identify the United States as the chief support of Caribbean dictatorship and the chief obstacle to social and political progress.

Armed Forces

The armed forces of the Caribbean Republics exist to defend their incumbent governments against internal subversion, filibustering expeditions, and armed intervention by antagonistic neighboring regimes. In Caribbean opinion, defense against any more formidable aggression is beyond the republics' limited capabilities and sure to be provided by the United States in its own interest. Under the concept of hemisphere defense, however, and with requisite US assistance, most of the Caribbean Republics will probably maintain small units to assist in an integrated defense of the Caribbean area.

Economic -

The nine Caribbean Republics are similar in economic structure, though they vary widely in rate of economic growth and capacity for development. With the exception of Panama, which depends substantially on commercial activities, their economies are based primarily on agriculture, which provides nearly all of their food requirements and the bulk of their exports. Except in the production of export crops, agricultural methods are technologically backward. The area's low economic capability is indicated by the low level of per capita national income, which ranges from roughly \$1,00 in Cuba to \$60 in Haiti and is generally below \$100.

Inasmuch as the area's requirements for capital goods and for a very large proportion of consumers' goods must be procured from abroad, foreign trade is vital to the national economies and they are vulnerable to fluctuations in the terms of trade. The principal export commodities are coffee, sugar, and bananas. The United States is the principal market and source of supply for each of the nine republics.

After an interval of readjustment in the immediate postwar years, the economic position of most of the Caribbean Republics has generally improved. A sustained rise in the prices of their export commodities has notably improved their terms of trade and stimulated economic growth. Throughout the area, production of foodstuffs and raw materials for local consumption has on the whole kept pace with population growth. Most countries have also made progress in expanding the industrial sectors of their economies through increased production of consumers' goods and construction materials. However, the relatively slow development of basic services such as transportation and power has been an important limitation on economic growth.

In recent years, foreign private investment capital has generally been unwilling to enter the area on a large scale, partly for lack of confidence in political stability, partly also in view of the narrow limitations of local markets. Foreign investment has continued to expand, however, in those fields in which such investment was already large, notably in the banana and electric power industries.

Caribbean dissatisfaction with a "colonial" economic status finds expression in antagonism toward the large US corporations operating in the area, particularly toward those which enjoy special privileges granted in former times. The Communists exploit this dissatisfaction for their own purposes, but the sentiment is real and general. Various pressures have been brought to bear to compel such interests to

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relinquish their special privileges and to pay higher wages and taxes. The United Fruit Company is the largest US firm operating in the area. In Costa Rica it has been able to negotiate a revision of its contract which may serve as a model for readjustments elsewhere.

Foreign Affairs

The relationships of the Caribbean Republics with one another are complex. The conspiratorial and revolutionary politics of these countries normally extend across national boundaries. Thus a successful revolution in one country is likely to lead to revolutionary attempts in others. This tendency has been accentuated by the increasing tension between traditionalist and reformist elements, which has resulted in a shifting of international alignments in many of the republics. These alignments are commonly described as of the "dictatorships" versus the "democracies" but these terms are not descriptive in all cases, since adherence to one group or another has been as much a matter of expediency as of ideological considerations.

With the notable exception of Guatemala under Arbenz, the governments of the Caribbean Republics have recognized that, in view of the strategic importance of the Caribbean to the United States and of the overwhelming preponderance of US economic and military power in the area, they must accommodate their policies to US security interests, if only as a matter of practical expediency. However, popular suspicions of US motives somewhat limits the ability of governments to cooperate with the US. Moreover, in return for their cooperation, governments of the area expect from the United States protection, toleration of their peculiar domestic political processes, and a generous attitude toward their economic problems. They strongly support the Organization of American States and the United Nations, in part as a means of obtaining a voice in international affairs out of proportion to their meager strength, but also as a means of invoking general Latin American support, if need be, as a safeguard against US domination.

The Caribbean Republics have virtually no relations with the Soviet Bloc other than the connections maintained by local Communist parties.

LATIN AMERICA

Η.	GUAT	EMALA
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Political

Colonel Carlos Castillo Armas, who assumed power following the June 1954 overthrow of the pro-Communist Arbenz regime, enjoys virtually dictatorial status in Guatemala, and political parties are banned. His government obtained "legitimization" in the election of a Constituent Assembly on 10 October 1954, and in November Castillo was sworn before that body to a presidential term to last until March 1960. Although a new Constitution is presently being drafted, Castillo would like to delay its promulgation and to continue to rule by decree for as long as possible.

Despite his authority, Castillo has been unable to provide vigorous political leadership. Disillusionment with Castillo's arbitrary measures and unpredictable attitudes, and dissension among diverse anti-Communist elements supporting him, have been aggravated by unsatisfactory economic conditions. A Communist underground has resumed a limited circulation of propaganda; some top Communists under the Arbenz regime are still at large, possibly still in Guatemala and rumors have circulated of impending plots against the regime. In January 1955, it was announced that the Castillo government had decisively suppressed an incipient coup. Certain anti-Communist regular officers and Colonel Monzon, who shared power with Castillo in several past-Arbenz juntas, were among those banished because of alleged anti-government plotting.

The immediate effects of the January affair have tended to be favorable to Castillo. At least for the short term, greater popular respect for the regime was inspired by the fact that key army officers remained loyal, and apprehension of further plots was reduced. Castillo's steps to improve his administration, particularly the recoganization of his cabinet and secretariat, further encouraged popular support. In addition, Vice President Nixon's recent visit may have helped to bolster the regime. However, certain of Castillo's actions indicate he has yielded to pressure from the right, and if persisted in, such actions to undo the popular reforms of recent years will cost Castillo a sizeable element of his left-of-center and moderate supporters and will aggravate political tensions, particularly if economic conditions should fail to improve.

Economic

Agriculture, which employs more than 75 percent of the labor force, and accounts for almost half of the gross national product, is Guatemala's most important economic activity. Coffee alone accounts for

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about 80 percent of the value of Guatemala's exports. The gross national product in 1953 (at 1950 prices) was \$526 million, or about \$170 per capita. Although the national treasury was looted by the Arbenz regime, national reserves currently stand at about \$42.5 million and the quetzal is being maintained as a hard currency.

Since taking power, the Castillo government has been faced with a consistently difficult economic situation. Although economic activity has recovered from its mid-1954 low to about the level of a year ago, business conditions are still depressed. Much private Guatemalan capital remains outside the country, and the government can provide no funds for new public investment. Unemployment remains substantially higher than under the Arbenz government; there is strong popular dissatisfaction over advances in the cost of living. Moreover, with coffee exports moving slowly, even the most optimistic estimates indicate that foreign exchange earnings for the present crop year will reach only some \$62 million, as against \$79 million last year.

On the other hand, the \$6.4 million US economic aid program announced last October is now underway. Guatemala has applied for a \$4 million Export-Import Bank line of credit. The new agreement with the United Fruit Company, if fully carried out, will raise the government's income by about \$1.5 to \$3 million annually. Such developments will help somewhat in easing Guatemala's economic difficulties.

Military

The Guatemalan Army of 8,000 men still wields ultimate power. Castillo has attempted to consolidate his control of that force by promising it special benefits and assigning trusted associates to key positions. However, strong resentments are probably smoldering among regular army officers because of their progressive displacement since last August by men close to Castillo and because of the summary treatment of some of their colleagues by the government on or after the January affair.

Estimate of Probable Developments

Political tensions are likely to remain high in Guatemala and the administration is likely to continue to suffer from Castillo's inexperience, vacillation, dearth of competent subordinates, and reluctance to accept advice from qualified sources. However, Castillo will probably be able to retain office for the foreseeable future, because of his control of the armed forces through key officers, the inflow of US economic aid, and the demonstrations of US confidence in the regime which are implicit in the aid program.

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The principal threat to the stability of the regime is general economic discontent. The factor of US grant and loan aid will serve to abate such discontent, or at least to prevent it from reaching explosive dimensions, provided that the Guatemalan coffee crop moves in time and at satisfactory prices. Should the crop fail so to move, the Castillo government would almost certainly need prompt additional external assistance in order to preserve its position.

The Guatemalan Communist underground almost certainly will continue to be active. Continuation of a rightist trend in government policy, particularly of actions to inhibit trade union organization, would aggravate political tensions and it probably would give some encouragement to Communist recruitment activities. However, the Party has no supporters in key government positions. It is not likely to increase substantially or become a threat to the stability of the regime in the short term.

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LATIN AMERICA

J.	VENEZUELA	

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Political

Venezuela is ruled by an authoritarian military regime. Although technically constitutional, the regime does not enjoy wide popular support and maintains control through harshly repressive tactics. The government is headed by Colonel Marcos Perez Jimenez, strong-man of the preceding three-man junta which overthrew the Accion Democratica (AD) administration in 1948. The army seized power because it feared the popular AD regime was becoming too independent and too progressive. The Perez government is supported by wealthy, conservative and opportunistic elements; however, his regime depends basically on the army, which is kept purged of disloyal elements.

During the past two years, Perez has strengthened his control of Venezuela. Political arrests and deportations have greatly reduced the effectiveness of the opposition. The clandestine organization of the outlawed AD was virtually destroyed in 1953. The government took advantage of the March 1954 Caracas Conference to restrict political activity still further. Efforts have been made to counterbalance these repressive tactics with a program of widely publicized public works and personal appearances. The regime allows some opposition parties to operate, but in name only.

The AD retains a large political following in Venezuela, but Romulo Betancourt, its popular leader is at present in exile. The party is weaker now than ever before. It also lacks the all-important support of the military without which it is incapable of organizing a successful revolution.

The illegal Communist Party (PCV) and the dissident, now-dissolved Proletarian Revolutionary Party (communist) (PRP-c) remain relatively ineffective. The government is believed to have a working arrangement with dissident Communist labor leaders, however, in support of its efforts to undermine the non-Communist left and to consolidate the position of its own labor federation, the CNT.

Venezuela's basic political orientation is unequivocally pre-Western, and the government usually supports US positions in the UN and the Organization of American States. Major conflicts with the

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US are on trade policy and on policy toward Latin American governments which Venezuela regards as hostile. The Venezuelan government deeply resented and tried to obstruct US and OAS efforts to maintain the stability of the Costa Rican government of Jose Figueres during the January 1955 crisis. The regime's clandestine but widely known aid to the revolutionaries and its obstruction of collective action resulted in a loss of prestige for the President.

Economic

Venezuela, the world's second largest producer of petroleum and an increasingly important source of high-grade iron ore, continues in a sound financial position. Current indebtedness as a result of the President's ambitious public works program, administrative inefficiency and widespread graft, can easily be eliminated by the anticipated delay in additional public works projects.

Oil production which supplies approximately 65 percent of government revenue and over 90 percent of the total country requirements for foreign exchange, by end-1954 had reached an all-time high. The Venezuelan government has been increasingly concerned over recent pressures on the US government to increase legislative restrictions on imports of fuel oil and crude petroleum.

Military

The armed forces, including the national police, number around 18,000. The army is considered capable of maintaining internal security. The air force, though small, has some jets. The capabilities of the navy are negligible. Since early 1953, as a result of friction with the US over procurement policies, virtually all major equipment, including tanks, destroyers, and jet aircraft, have been procured from Europe. However, at the end of 1954 the government ordered 22 F-86-F jet fighters from the US.

Venezuela is eager to build up its meager military capabilities, but like many other Latin American countries, is reluctant to assume any obligations outside its own territory in hemisphere defense. The oil installations are vulnerable to sabotage, but present security measures are probably adequate to deal with sabotage by local elements which have only limited resources.

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Estimate of Probable Developments*

The military will continue to be the keystone of government in Venezuela. Although no political or military leader presently challenges Perez' authority, in the event of his removal, the military themselves or a military-backed civilian regime would probably govern.

It is doubtful that the Communists will be successful in their efforts to increase their influence among labor circles or to achieve a united front with AD elements in opposition to the present regime.

Venezuela will probably continue to enjoy a strong financial position. A high level of oil exports should continue barring cutbacks in US imports, and exports of iron ore should increase.

No foreseeable political change would threaten the production and export of petroleum and iron ore. Additional security measures, however, would be required to cope with a large-scale sabotage of oil installations such as might be expected in the event of war. There is no evidence that the present regime contemplates nationalization of the oil companies.

The Venezuelans will continue to conceive their proper role in hemisphere defense to be the protection of their own territory and strategic industries. They will continue to direct their military efforts toward this end. They would be unlikely to consent to the stationing of any foreign troops on Venezuelan soil.

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^{*} This section, with appropriate updating, is based in part on NIE-67. "Probable Developments in Venezuela," 31 July 1952.

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LATIN AMERICA

K. THE EUROPEAN DEPENDENCIES IN THE CARIBBEAN AREA*

(See Map, Figure VII-K-1)

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The European possessions in the Caribbean area are of strategic importance to the US primarily because of their geographic position. In time of general war, US military bases in most of the dependencies would be essential to the security of strategically vital US and Western Hemisphere areas, installations, and lines of communication. Conversely, control or even covert use of any of the dependencies by enemies of the US could in wartime threaten vital US interests.

Certain dependencies are also important producers of strategic bauxite and petroleum products. Dutch Guiana (Surinam), British Guiana, and Jamaica currently produce approximately 59 percent of the Free World's supply of bauxite ore. They provide nearly 50 percent of the total US supply and the major part of Canada's supply. The capacity of the petroleum refineries of Dutch Aruba and Curacao amounts to about 6 percent of Free World capacity. In the event of war, the importance of the Caribbean sources of these commodities would be greatly enhanced, and might become critical, owing to the distance and vulnerability of other major sources.

The Caribbean dependencies of the UK, France, and the Netherlands have a rapidly expanding population of some 4.5 million. The great majority is Negro-mulatto, and only about 2 percent is white. There are large Asian minorities in Dutch and British Guiana and Trinidad. The economies of the dependencies (excepting the Dutch West Indies) are based wholly or largely on agriculture. For the most part, the area is characterized by political immaturity and depressed social and economic conditions, with increasing overpopulation, chronic unemployment, high disease rates, ignorance, and underdeveloped economies. However, for the foreseeable future, the European authorities will retain the capability to restore order with their police and military forces.

The Communist movement in the dependencies is connected with that in the respective metropoles and with the WFTU, rather than

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with Communists in Latin America, and we believe that this situation will continue. The Communists are strongest in Martinique and Guadeloupe, where the French authorities impose no restrictions on their organizational or propaganda activities. The Communists there could probably organize serious disorders. Nevertheless, the French authorities could restore order unless the Communists were armed from overseas. If, however, in the event of war or paralyzing social disorders in France, the Communists were given arms and instructions to seize power, loyal French security forces in the area would probably be unable to restore order without external assistance.

In the British West Indies, Communism is presently weak, but its influence is growing, particularly in Jamaica and Trinidad. In British Guiana, its influence is strong despite dissension among leaders of the Peoples Progressive Party. The Communists have capabilities for sabotage in each of these colonies, and they can be expected to have an increasing capability in Jamaica and Trinidad for fomenting or abetting disorders. We believe that the control of British Guiana will remain in the hands of British officials backed by troops and a strong police force. In British Honduras there is as yet no evidence of Communist activity, although the population would be susceptible to Communist agitation.

In the Netherlands dependencies there is as yet no significant Communist movement.

Preservation of European authority in the Caribbean dependencies tends to insure the availability of the strategic materials and bases in the area. However, US support for the European position occasions difficulties in relations with friendly but anticolonial powers, primarily the Latin American republics.

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